



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 8, No. 3

APRIL/MAY 1998

Public Communications Tel: (207) 626-8475

FAX NUMBER CORRECTION

Last month's article on S-Corp and Partnership transmittals included an incorrect FAX number. The correct Fax number to order forms is (207)622-3517.

MAINE HOMESTEAD EXEMPTION PROGRAM

A recent study for the Maine Municipal Association revealed that of Maine's three major taxes (income, sales and property), most residents said property tax relief should be the State's top priority. The Maine Resident Homestead Property Tax Exemption adopted several weeks ago by our Legislature and signed by Governor King, will provide almost \$50,000,000 in tax relief this year. This is the largest tax cut for Maine homeowners in history.

The program, administered by the towns and municipalities, exempts up to \$7,000 of the homestead valuation. Applications must be filed with the towns by May 15, 1998 in order to take advantage of the exemption for this year. The value of this benefit depends upon the tax rate of the community.

Residents who have owned a home in Maine for the past twelve months qualify. Lower and middle income residents, the elderly and renters may also qualify for Maine's existing targeted tax relief programs administered by Maine Revenue Services - the Maine Residents and Elderly Property Tax and Rent Refund Program which starts August 1.

Applications have been made available to all municipalities. Completed applications are filed with the town office or municipal tax assessor where the property is located.

The time period for application is very short. At press time, there were a number of technical questions and ruling requests pending. MRS will post a frequently asked question section dealing with

homestead issues on its website. Check our website at <http://janus.state.me.us/revenue> for up-to-date information on homestead issues.

FORM W-4 REVISITED

This is a follow-up to the Form W-4 article in last month's Tax Alert (Volume 8, No. 2). The addition of a line to the Personal Allowance Worksheet for federal Form W-4 has the potential to create problems with Maine income tax withholding. The new line (line G - Child Tax Credit) allows taxpayers in certain income brackets to claim additional allowances for eligible children. This situation will cause employees to be underwithheld for Maine income tax purposes. In an effort to minimize paperwork for all, Maine will simply require employers to keep copies of each employee's Personal Allowance Worksheet along with the employee's Form W-4.

In order to eliminate the effect of the federal Child Tax Credit, the employer will calculate Maine income tax withholding based on the employee's federal allowances less any amount claimed on line G of the worksheet. The copy of the federal worksheet, rather than Form W-4, will serve as the State of Maine Form W-4.

PAYROLL SERVICE PROVIDERS

Recent legislation may increase the number of payroll service providers required to register with the state. 10 M.R.S.A ' 1495, sub-' 2 has been amended to define payroll processing services as preparing and issuing payroll checks; preparing and filing state income withholding tax reports or unemployment insurance contribution reports; or collecting , holding, and turning over to the State Tax Assessor income withholding taxes or unemployment insurance contributions. Under previous legislation, payroll

services were required to register only if they did the preparation, filing and handled clients' funds.

BUSINESS EQUIPMENT TAX REIMBURSEMENT

The new Business Equipment Tax Reimbursement Program (BETR) application booklets will be mailed in April to businesses that have applied for reimbursement in the past. All others wishing to take advantage of the program can order the application by calling our forms line at (207)624-7894. The applications are also available at most municipal offices.

The actual application requirements have not changed significantly. We still require that the "Date Placed in Service" be completed but have dropped the Form 801 requirement of "Date Acquired." Maine Revenue Services reserves the right to request this information for audit purposes.

The new booklets will no longer be year specific. In the future, this booklet will be updated only when there are law changes which need to be reflected in the application booklet.

We continue to request your comments and/or recommendations on ways to improve the filing and administration of this program. If you have any suggestions, call Robert Doiron at (207)287-6939.

NONRESIDENT REQUIREMENT TO FILE

Any nonresident individual selling real property in Maine for a total consideration of more than \$50,000 is subject to real estate withholding equal to 2.5% of the selling price of the property. What many individuals don't understand, is that the real estate withholding does not discharge them of the obligation to file a Maine individual income tax return for the year of the sale to report the taxable gain or, in some cases, the loss to claim a refund.

Another misconception, is that the gain is not taxable by Maine if the sale is less than \$50,000. All nonresident individuals are required to file and report the gain on any real property sold in Maine regardless of the selling price. In many instances, the taxpayer has reported the gain and paid the tax to the

home state before being notified of the Maine tax obligation.

Maine Revenue Services has put together a packet of materials for real estate agents, attorneys and title companies to distribute to nonresidents in the process of selling property. If you need additional information about Real Estate Withholding contact Linda Cyr at (207)626-8473.

ALTERNATIVE MINIMUM TAX FOR MINORS

If parents have children under age 14 subject to federal Alternative Minimum Tax (AMT) a separate Form 6251 must be filed for each child. The calculation of federal Alternative Minimum Tax for children under age 14 differs from the calculation of AMT for an adult in two ways: 1) Exemption Amount (Form 6251, line 22) and; 2) Alternative Minimum Tax (Form 6251, line 28). Each line uses a worksheet to calculate the adjustment for children.

The worksheet for line 22 either increases or limits the child's exemption amount. If the parents' alternative minimum taxable income (Form 6251, line 21) is greater than their exemption amount (Form 6251, line 22), the child's line 22 exemption is limited to \$1,300 plus the child's earned income. If, however, the parents' alternative minimum taxable income is less than their exemption on line 22, the difference is applied to the child's line 22 exemption.

The worksheet for line 28 limits or eliminates a child's AMT in certain situations, by comparing the child's AMT to the parents' AMT. If the combined AMT calculation of the parents and child equals zero, as calculated on the line 28 worksheet, the child will not be assessed an AMT. If the combined AMT is greater than zero, the child's AMT remains unchanged.

Since individuals calculate Maine minimum tax based on federal tentative minimum tax (Form 6251, line 26), there may be situations where a child under the age of 14 may be subject to a higher AMT for Maine than for federal purposes. In the case where a child's AMT is reduced or eliminated through the line 28 worksheet, that adjustment is not taken into consideration for purposes of calculating Maine AMT. The result is the possibility of a child being subject to Maine AMT but not to federal AMT. This

may also be true when the child's regular federal tax exceeds federal tentative minimum tax.

income earned in his employment at Bath Iron Works.

COURT DECISIONS

State v. Chad Ximiness

Chad Ximiness of Augusta, Maine pleaded guilty to six counts of "Failure to File Maine Income Tax Returns," before Judge Courtland Perry in the Augusta District Court on March 16, 1998. These charges represented the defendant's failure to file his returns for the years from 1991-1996. Ximiness had failed to appear at his arraignment in District Court and had thus been arrested on a bench warrant. He decided to plead guilty when brought in for arraignment.

Pursuant to a plea agreement, Ximiness was sentenced as follows:

Count I: 9 months all but 15 days suspended, probation one year.

Count II: 9 months all suspended, probation one year, consecutive.

Count III: 9 months all suspended, probation one year consecutive.

Counts IV-VI: a \$500 fine on each count.

Restitution of \$7,329.86 was ordered as part of the sentence and as a special condition of probation, to be paid at the rate of \$200 per month. The Court has approved the defendant for work release subject to the approval of the Sheriff.

Ximiness, who works at B.I.W. is one of a group of employees from that company who file fraudulent W-4 Forms claiming many more exemptions than they are entitled to, and then fail to file returns or pay the extra tax due that was over and above the small amount withheld from their paychecks.

State v. Roger Charest

Roger R. Charest of Wales, Maine, pleaded guilty at arraignment to five counts of "Failure to File Maine Income Tax Returns" before Judge Ellen Gorman in the Lewiston District Court on March 4, 1998. These complaints stemmed from the defendant's failure to file income tax returns for the years 1992-1996, for

Charest was sentenced pursuant to a plea agreement as follows:

Count I: 9 months all but 5 days suspended, probation one year. Special conditions of probation are 100 hours of public service work, restitution of up to \$4,100, and a requirement to file all future returns on time.

Count II: 9 months all suspended, probation one year, consecutive to Count I. The same conditions of probation apply, but an additional 100 hours of public service work is required.

Count III - V: A \$500 fine on each count.

Charest is another of the group of B.I.W. employees who filed fraudulent W-4 forms to reduce their withholding and then didn't file any State tax returns. His conviction may be the most significant thus far because he is a union shop steward and he was arrested at work, gaining considerable notoriety. An arrest warrant was issued because Deputies could not locate him for service of a court summons.

PROBLEM SOLVING DAY

Maine taxpayers are invited to a joint Internal Revenue Service (IRS) and Maine Revenue Services (MRS) Problem Solving Day on May 16, 1998, from 9:00 a.m. to 5:00 p.m., at the IRS office located at 220 Maine Mall Road, South Portland. Problem Solving Day provides an opportunity to meet with IRS and MRS officials on tax problems that have not been resolved through normal channels.

Although not required, taxpayers or their representatives can call (207)626-9128 to schedule an appointment. Taxpayers are encouraged to call ahead so that IRS and MRS representatives are better prepared to help.

MAINE SALES & USE TAX SEMINAR

Pierce Atwood will present a one-day seminar, "Maine Sales & Use Tax" on May 21, 1998 from 8:00 a.m. to 4:00 p.m. For more information, or to register, please contact Leslie Cormier at (207)791-1143.

MAINE REVENUE SERVICES <http://janus.state.me.us/revenue>

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

SUGGESTIONS FOR TAX ALERT?

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

STATE OF MAINE

Angus S. King, Governor

**Janet E. Waldron, Commissioner
Administrative and Financial
Services**

TAX QUESTIONS? PLEASE CONTACT US:

Maine Revenue Services	(207)287-2076	FAX (207) 287-4028
Central Registration	(207)287-2338	FAX (207) 287-3733
Collections & Compliance	(207)287-3301	FAX (207) 287-6627
Corporate Tax	(207)287-3301	FAX (207) 287-6627
Electronic Funds Transfer	(207)287-8276	FAX (207) 287-6396
Estate Tax	(207)626-8480	FAX (207) 287-4028
Excise Tax	(207)287-3851	FAX (207) 287-6628
Forms Request Line	(207)624-7894	FAX (207) 622-3517
Income Tax Assistance	(207)626-8475	FAX (207) 287-4028
Paym't Plans/Income Tax	(207)621-4300	FAX (207) 621-4328
Payment Plans/ Other	(207)287-3301	FAX (207) 287-4028
Practitioners' Hotline	(207)626-8458	FAX (207) 287-4028
Property Tax	(207)287-2011	FAX (207) 287-6396
Sales Tax	(207)287-2336	FAX (207) 287-6628
Taxpayer Advocate	(207)287-4562	FAX (207) 287-6627
TTY Service	(207)287-4477	-----
Withholding Tax	(207)626-8475	FAX (207) 287-4028

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24 State House Station

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