



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

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Public Communications Tel: (207) 626-8465

Maine State Retirement System

There appears to be some confusion regarding the appropriate reporting of contributions made to the Maine State Retirement System and to the amount that should be deducted upon receipt of distributions, either upon retirement or upon withdrawal from the retirement system.

Taxing contributions:

36 M.R.S.A. § 5122(1)(G) provides for the addition to income "Pick-up contributions paid by the taxpayer's employer on the taxpayer's behalf to the Maine State Retirement System." The add back occurs as an income modification on Schedule 1 of the Maine Individual Income Tax Return and is determined by looking at the W-2 of the participant and taking the difference between the State wages and the Federal wages. This amount is most often, but not always, listed in Box 14, labeled MSRS.

Deducting distributions:

The taxpayer, pursuant to 36 M.R.S.A. § 5122(2)(E), is entitled to a reduction to Federal Adjusted Gross income of the "Pick-up contributions paid to the taxpayer by the Maine State Retirement System or distributed as the result of a rollover, whether or not included in the federal adjusted gross income, that have been previously taxed under this Part." The subtraction also occurs as an income modification on Schedule 1 and is calculated in one of two ways: 1) by subtracting box 12 from box 2a on the 1099-R form from the Maine State Retirement System, or 2) by subtracting the "state taxable gross" amount from the "federal taxable gross" amount as listed on the last check issued by the Maine State Retirement System.

Changes to the 2002 Estate Tax Filing

Last year, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made substantial changes to the federal tax code. Among these changes is the phase-out of the estate tax over the course of nine years. In addition, the credit for state death taxes is eliminated in only four years. Since Maine estate tax is based on this federal credit, EGTRRA will completely eliminate the Maine estate tax (absent any legislative action) by January 1, 2005. And, unless Congress acts, all estate taxes will eventually return to their calendar year 2000 levels in 2011.

Faced with a shortfall and a constitutional requirement to balance the budget, the Legislature decided that the state could not afford to conform with all of the provisions of EGTRRA. One of the areas of nonconformity involves the accelerated reduction of the credit for state death taxes for calendar year 2002. This difference between federal and Maine law necessitates a minor change to the 2002 Maine estate tax form in order to reverse the reduction in the federal credit amount. This is accomplished by a simple

calculation on line 5 of the Maine Form 706ME for 2002. To calculate the amount for line 5, divide the amount from federal Form 706, line 13 by 0.75. Complete the remainder of the form exactly as in previous years.

A downloadable version of the 2002 Form 706ME is available on the Maine Revenue Services Web site at: www.state.me.us/revenue/forms. Select "2002 Forms" and scroll down to the "Estate/Fiduciary" heading. If you have any questions about the new Form 706ME, you may contact Maine Revenue Services by phone at 207-626-8480.

Obtaining a Tax Clearance Letter

A tax clearance letter is issued by Maine Revenue Services upon the request of a taxpayer. The tax clearance letter indicates the tax status of a business/corporate account. The letter will:

- Confirm, if applicable, that the taxpayer has no known existing liability; or
- State the amount of current tax liability and/or
- Identify any delinquent (unfiled) state returns for withholding taxes, sales tax, corporate income tax, etc.

Some common reasons for requesting a tax clearance letter are:

- The sale of the assets of business or corporation
- The filing of an *Intent to Dissolve* with the Secretary of State
- To avoid liability of trust fund taxes 36 M.R.S.A. §177(6) states:

"If a person liable for any trust fund taxes incurred in the course of operating a business sells the business or stock of goods or quits the business, the person shall make a final return and payment within 15 days after the date of selling or quitting the business. The successor, successors or assignees, if any, shall withhold a sufficient amount of the purchase money to cover the amount of those taxes, along with applicable interest and penalties, until such time as the former owner produces a receipt from the State Tax Assessor showing that the taxes have been paid, or a certificate from the assessor stating that no trust fund taxes, interest or penalties are due. The liability of a purchaser is limited to the amount of the purchase price. A purchaser who fails to withhold a sufficient amount of the purchase price is jointly and severally liable for the payment of the taxes, penalties and interest accrued and unpaid on account of the operation of the business by the former owner, owners or assignors and the assessor may make an assessment against the purchaser at any time within 6 years from the date of the sale, transfer or assignment."

The request may be faxed to Maine Revenue Services at (207) 287-6627 or mailed to: Attention: Tax Clearance, Compliance Division, Maine Revenue Services, 24 State House Station, Augusta, Maine 04333.

The request must contain the following information:

- Name of business/corporation
- EIN
- Sales Tax # if available
- Instructions on how you want to receive the letter (mail/fax)
- If you file Maine Corporate Income returns, indicate S or C corporation
- **Important:** The request must be signed by an officer of the corporation (include title), or by an owner of the business, stating nature of ownership interest.

Contact Joanne Parker at Maine Revenue Services (207) 624-9628 with further questions on tax clearance letters.

Suggestions for the Tax Alert?

Please contact: Public Communications

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

Angus S. King, Governor

Janet E. Waldron, Commissioner
Administrative and Financial Services

Anthony J. Neves, Executive Director
Maine Revenue Services

<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	
Central Registration	(207) 287-2338	(207) 287-3733	
Collections & Compliance	(207) 624-9595	(207) 287-6627	compliance.tax@state.me.us
Corporate Tax	(207) 624-9670	(207) 287-6627	corporate.tax@state.me.us
E-file Help Desk	(207) 624-9730	(207) 624-9740	efile.helpdesk@state.me.us
Economic Research	(207) 287-6965	(207) 287-3618	
Electronic Funds Transfer	(207) 287-8276	(207) 287-6975	efunds.transfer@state.me.us
Estate Tax	(207) 626-8480	(207) 624-9694	income.tax@state.me.us
Fuel Tax	(207) 624-9745	(207) 287-6628	fuel.tax@state.me.us
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	income.tax@state.me.us
Insurance Premium Tax	(207) 624-9582	(207) 624-9694	
Payment Plan/Income Tax	(207) 621-4300	(207) 621-4328	
Payment Plan/Other	(207) 624-9595	(207) 287-6627	
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2011	(207) 287-6396	prop.tax@state.me.us
Public Communications	(207) 626-8465	(207) 287-3618	
Sales Tax	(207) 624-9693	(207) 287-6628	sales.tax@state.me.us
Taxpayer Advocate	(207) 624-9649	(207) 287-3618	
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	withholding.tax@state.me.us

MAINE REVENUE SERVICES

24 State House Station
Augusta ME 04333-0024