



# MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

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Public Communications Tel: (207) 287-6838

## Self-Employed Health Insurance Deduction Add-Back

Recent legislation repealed the requirement to add back 25% of the self-employed health insurance deduction (36 M.R.S.A. § 5122 (1)(L)) to Maine individual income tax returns. The legislation retroactively applies to tax years beginning on or after January 1, 1999. The repeal was effective August 11, 2000.

During the latter part of 1999, Maine Revenue Services made a commitment to the tax practitioner community to (1) change the returns affected by the repeal without the requirement to file amended returns, and (2) identify the adjustment in such a way that taxpayers understood that the change was not due to errors made by the person preparing the returns. **Maine Revenue Services wants to apologize to the practitioner community for not properly informing taxpayers that the adjustments were due to the law change and not to errors on the part of persons preparing the returns.**

As the effective date of the law drew near, our first priority was to determine the most efficient approach to correcting the returns for the taxpayers affected by this change. Unfortunately, a computer-generated adjustment was not a viable option. In order to keep our commitment to make the changes, we were left with the job of manually changing more than 20,000 accounts. A request for a check stub message, specific to the repeal of the self-employment health insurance add-back, was submitted to the programming staff; inadvertently, the message did not fully explain the reason for the resulting refund.

It will be after the fact for most of your clients, but Maine Revenue Services is willing to send a letter explaining that the changes were due to legislative action and not to preparer error. If you would like MRS to write to any of your clients, please send a list of names and addresses to Maine Revenue Services, Income/Estate Tax Division, Augusta, Maine 04333-0024.

Again, Maine Revenue Services apologizes to the practitioner community for the oversight and any resulting inconvenience.

## Legislative Changes

Following are some of the legislative changes that impact the Individual Income Tax. Other legislative changes will be discussed in the next issue of the Maine Tax Alert.

**Individual Income Tax Rate Schedules:** The manner of adjusting the individual income tax rate schedules has been changed. The rate schedules for tax years beginning in 2000, 2001 and 2002 are established by statute. **The rate schedules for 2002 are adjusted as a transition to the 2003 schedules.** The rate schedules for 2000 and 2001 are the same as those in effect for 1999. For tax years beginning on or after January 1, 2003, the rate schedules will be adjusted for the full value of the cost-of-living adjustment; under prior law, the schedules were adjusted for inflation only if the rate of inflation exceeded 3.5%. Also, the annual adjustment determined each September will now apply to tax years beginning in the subsequent calendar year; previously, the adjusted schedules applied retroactively to tax years beginning in the same calendar year in which the adjustments were made. 36 M.R.S.A. §5111, 5402 & 5403).

**Personal Exemption:** The personal exemption for individuals is \$2,850 for tax years beginning on or after January 1, 2000. 36 M.R.S.A. §5126.

**Pension Benefits Income Deduction:** Each recipient of a public or private employer-sponsored pension benefit is eligible for an individual income tax deduction of up to \$6,000 of pension income included in federal adjusted gross income. The deduction may only be claimed by the individual who earned the pension benefit or by the surviving spouse. The \$6,000 limitation is reduced by any amount of social security benefits and railroad retirement benefits received. Pension benefits eligible for the deduction include state, federal and military pension benefits and retirement benefits received from plans

established and maintained by an employer for the benefit of its employees under Section 401(a), Section 403 or Section 457(b) of the Internal Revenue Code. Pension benefits that do not qualify for the deduction are benefits from any individual retirement account (IRC §408 & 408A) (IRAs), simplified employee pension benefits (IRC, §408(k)) and benefits from an ineligible deferred compensation plan (IRC (f)). Applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. §5122(2)(M).

**Long-Term Care Income Modification:** For tax years beginning on or after January 1, 2000, individuals may reduce Maine taxable income for premiums paid for long-term care insurance if the policy meets the federal definition for long-term care insurance contracts. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this deduction will continue to be eligible even if the policy does not meet the federal definition for a long-term care insurance contract. The premiums claimed as a deduction under this provision must be reduced by any premiums claimed as Maine itemized deductions. 36 M.R.S.A. §5122(2)(L).

**Employer-Provided Long-Term Care Credit:** For tax years beginning on or after January 1, 2000, employers are eligible for the Employer-provided long-term care credit if the policy on which premiums are paid meets the federal definition of a qualified long-term care insurance contract. Premiums paid on long-term care insurance policies previously certified by the Bureau of Insurance as being eligible for this credit will continue to be eligible even if the policy does not meet the federal definition for a qualified long-term care insurance contract. 36 M.R.S.A. §5217-C.

**Itemized Deductions:** Maine itemized deductions must now be reduced by any amount of deduction related to income taxable to financial institutions under the Maine Franchise Tax law. Income from investments in the business operation of a financial institution is not taxable to individual or corporate taxpayers. Effective April 14, 2000. 36 M.R.S.A. §5125(3).

**Maine Earned Income Credit:** Individuals are allowed a Maine earned income credit equal to 5% of the federal earned income credit. Unlike the federal credit, however, the Maine credit is not refundable. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. §5219-S.

**Historic Rehabilitation Credit:** A taxpayer is allowed a credit equal to the amount of the federal credit (including amounts carried over to the tax year for federal income tax purposes) for rehabilitation of certified historic structures located in Maine. The credit is nonrefundable and is limited to \$100,000 annually per taxpayer. The credit is subject to the same recapture provisions as under the IRC. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. §5219-R.

**Family Development Account Credit:** Individuals whose family income is below 200% of the poverty level may open a family development account in connection with an approved community development organization. Use of the funds includes educational expenses, home and auto purchases or repairs, emergency expenses for basic needs, capital to start a business and health care costs. Accounts are funded by deposits made by family members participating in the program and matching funds from community development organizations. Deposits to the fund are not exempt from tax; however, withdrawals (both principle and interest) are exempt from Maine income tax (10 M.R.S.A. §1077(4)). New legislation provides a credit to contributors to family development matching fund accounts. The credit per tax return is equal to the lesser of \$25,000 or 50% of the amount contributed. The credit is limited to the tax liability on the return and must be taken after the allowance of all other credits. Maine itemized deductions must exclude any contributions claimed for this credit. The aggregate allowable credit amount in a state fiscal year is limited to \$200,000. The Finance Authority of Maine is required to certify to MRS the allowable credit for each contributor. The credit applies to tax years beginning on or after January 1, 2000. 36 M.R.S.A. §5216-C. For more information about donating to the Family Development Account reserve fund, please contact Heather W. Cox at (207)621-3434 or Jennifer Giosia at (207)973-3500.

**Quality Child Care Credits:** Quality child care means care provided at a child care site that meets minimum licensing standards; is accredited by an independent, nationally recognized program approved by DHS, Office of Head Start and Child Care; utilizes recognized quality indicators for child care services approved by DHS, Office of Head Start and Child Care; includes provisions for client and parent input, a review of the provider's policies, procedures and program records, and an on-site program review. The following Quality Child Care Credits apply to tax years beginning on or after January 1, 2001.

a. **Employer-assisted Day Care Credit 36 M.R.S.A. §5217:** The allowable credit under this section doubles if the day care provided constitutes quality child care.

**b. Individual Credit for Child Care Expenses 36 M.R.S.A. 5218:** The allowable credit under this section doubles if the child care expenses paid were for quality child care. The credit is refundable up to \$500.

**c. Quality Child Care Investment Credit.** Corporate taxpayers making certified investments in quality childcare services qualify for a credit equal to 30% of up to \$30,000 in eligible expenditures. Individual taxpayers that make certified investments and expend at least \$10,000 during the tax year qualify for a credit equal to \$1,000 each year for 10 years, plus \$10,000 at the end of the 10-year period. The credit is nonrefundable. Any unused credit amount may be carried forward until exhausted. The Maine Department of Human Services, Office of Head Start and Child Care must certify the eligibility of an investment 36 M.R.S.A. 5219-Q.

**Maine Seed Capital Credit:** The credit amount increases from 30% to 40% for credit certificates issued prior to July 1, 2001 for investments made after August 11, 2000. The new law clarifies that the owners of flow-through entities (partnerships, S corps, LLCs, nontaxable trusts, etc.) are considered the investors for investments made by the flow-through entity in private venture capital funds. Credit certificates are subject to certain eligibility requirements. 36 M.R.S.A. 5216 (2).

**Sawmill Biomass Credit:** A taxpayer that produces merchantable lumber or secondary wood products may claim a credit of up to \$6 per ton of the wood processing residue by-product (bark, sawdust, shavings and wood chips) that is transported to a qualifying facility. A qualifying facility is one that uses the residue to generate electricity, industrial heat or steam; for landscaping mulch or soil amendment (but not for landfill); for composting of sewer sludge; to create medium density fiberboard, resin adhesives or other building products; or, to convert the wood by-product to ethanol or other forms of fuel. A taxpayer that includes, owns or is affiliated with a qualifying facility is not eligible for the credit. The allowable credit is determined by the number of miles the wood-processing residue is transported by the taxpayer to a qualifying facility. The credit amount must be reduced by amounts received for the wood-processing residue. The credit is limited to the tax liability of the taxpayer and may not exceed \$500,000 in the aggregate for all taxpayers. The credit applies to deliveries made from July 1, 2000 to June 30, 2001. 36 M.R.S.A. 5219-S. Call 207-624-7894 to request a Sawmill Biomass Credit application or obtain one from our web site listed on the last page.

**Innocent and Injured Spouses:** The tax assessor is now authorized to relieve the income tax liability of innocent or injured spouses who meet the qualifications for relief for federal income tax purposes. The spouse is not required to request federal relief prior to requesting state relief. Effective October 1, 2000. 36 M.R.S.A. 5287.

### **Policy Change for the Billing Stream for Unpaid Taxes**

Maine tax law requires that Maine Revenue Services send a notice on all unpaid tax debts demanding that the tax be paid. Any person who fails to pay the tax due within 10 days of receipt of that notice is liable for a penalty of 25% of the tax due. The intent of this provision is to place the cost of collections of past due tax on the persons who fail to pay Maine taxes when due.

In the past, Maine Revenue Services has issued the “Demand-to-Pay” notice at the earliest time allowed to collect any past due tax as soon as possible. At the time of heavy return processing, this practice created an inequity in which taxpayers might become liable for the penalty before other taxpayers in similar circumstances. A taxpayer whose return was processed immediately upon receipt would be liable earlier than the taxpayer whose return was caught in the large volume of returns that are filed near the due date.

In an attempt to treat all taxpayers consistently, the “Demand-to-Pay “ notice will not be mailed until 30 days after the due date of a return. Interest and late-payment penalty will still accrue on any late paid tax.

### **Invitation to Practitioners**

Michael Nickerson, CPA suggested that Maine Revenue Services develop a list of practitioners to solicit their input when considering procedural changes. We think this is a great idea. Since feedback time is limited, the list will be developed as an e-mail list. Please send an e-mail to [sharon.l.gallant@state.me.us](mailto:sharon.l.gallant@state.me.us) to participate in this program.

**MAINE REVENUE SERVICES:** <http://janus.state.me.us/revenue>  
 ....Order tax forms through the WebPage.....

**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	<a href="mailto:tax_compliance@state.me.us">tax_compliance@state.me.us</a>
Corporate Tax	(207) 624-9670	(207) 287-6627	<a href="mailto:corporate_tax@state.me.us">corporate_tax@state.me.us</a>
Electronic Funds Transfer	(207) 287-8276	(207) 287-6627	<a href="mailto:electronic_funds_transfer@state.me.us">electronic_funds_transfer@state.me.us</a>
Estate Tax	(207) 626-8480	(207) 624-9694	<a href="mailto:income_estate_tax@state.me.us">income_estate_tax@state.me.us</a>
Excise Tax	(207) 287-3851	(207) 287-6628	<a href="mailto:sales_tax@state.me.us">sales_tax@state.me.us</a>
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	<a href="mailto:income_estate_tax@state.me.us">income_estate_tax@state.me.us</a>
Paym't 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	<a href="mailto:property_tax@state.me.us">property_tax@state.me.us</a> <a href="mailto:abandoned_property@state.me.us">abandoned_property@state.me.us</a>
Public Communications	(207) 287-6838	(207) 287-3618	
Sales Tax	(207) 287-2336	(207) 287-6628	<a href="mailto:sales_tax@state.me.us">sales_tax@state.me.us</a>
Taxpayer Advocate	(207) 287-4562	(207) 287-3294	
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	<a href="mailto:withholding_tax@state.me.us">withholding_tax@state.me.us</a>

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