



MAINE TAX ALERT

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Individual Income Tax Legislative Summary

Quality Child Care Credits. 36 M.R.S.A. § 5219-Q. 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. *See* definition in L.D. 617, Part NNN, Section 6, pg. 286 [§ 5219-Q, sub-§ 1]. The following Quality Child Care Credits apply to tax years beginning on or after January 1, 2001 *See* L.D. 617; P.L. 1999, c. 401, Pt. NNN.

Note: All items below apply to individuals; items "A" and "C" also apply to corporations and franchise taxes.

- 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. *See* L.D. 617; P.L. 1999, c. 401, Pt. NNN.
- 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. *See* L.D. 617; P.L. 1999, c. 401, Pt. NNN.
- C. **Quality Child Care Investment Credit.** 36 M.R.S.A. § 5219-Q. Corporate taxpayers making certified investments in quality child care 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 eligible investments. *See* L.D. 617; P.L. 1999, c. 401, Pt. NNN. *See also* L.D. 2524; P.L. 1999, c. 708.

Quality Child Care Credit provisions. The requirement that the State Controller transfer funds from the Fund for a Healthy Maine to the General Fund to cover lost revenue due to the quality child care credit provisions is repealed. Also repealed is the requirement for the State Treasurer to certify to the Legislature that sufficient funds are available in the Fund for a Healthy Maine to fund all allocations and authorized transfers relative to the quality child care credit provisions. Effective June 4, 2001. *See* L.D. 300; P.L. 2001, c. 358, Pt. D, p. 206.

Individual income tax rate schedules. 36 M.R.S.A. §§ 5111, 5402 & 5403. The manner of adjusting the individual income tax rate schedules has been changed. The rate schedules for tax years beginning in 2001 and 2002 are established by statute. The rate schedules for 2001 are the same as those in effect for 2000. 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. *See* L.D. 2510, P.L. 1999, c. 731, Pt T.

High-technology Credit: High-technology activity. 36 M.R.S.A. § 5219-M. The definition of high-technology activity is changed to eliminate the following: 1) electronic communications services; 2) support access to

electronic media; 3) data and associated communications support; and 4) advanced telecommunications capability. The definition is, however, amended to include advanced telecommunications services. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 300; P.L. 2001, c. 358, Pt. M, pp. 244-245.

High-technology Credit: Eligible equipment. 36 M.R.S.A. § 5219-M. Eligible equipment must now be used primarily in high-technology activity in order to qualify for the credit. Additionally, if eligible equipment is used in wire line telecommunications, it must be capable of transmitting data at 200 kilobits or more per second in at least one direction. If eligible equipment is used in wireless telecommunications, it must be capable of transmitting data at 42 kilobits or more per second in at least one direction. Eligible equipment includes computer equipment, electronics components and accessories, communications equipment, and computer software placed into service in Maine. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 300; P.L. 2001, c. 358, Pt. M, p. 245.

High-technology Credit: Limitation. 36 M.R.S.A. § 5219-M. For tax years beginning on or after January 1, 2001, the credit, including carryover amounts, may not be used to reduce the taxpayer's net tax liability after all other credits (except the Family Development Account Contribution Credit and the Super Credit for substantially increased research and development) by more than \$100,000 in any one year. In addition, the credit may not reduce the tax liability below that of the previous year after all other credits and may not reduce the tax liability of the current year to below zero. *See* L.D. 300; P.L. 2001, c. 358, Pt. M, p. 246.

High-technology Credit: Carryover. 36 M.R.S.A. § 5219-M. Generally, unused credit amounts may be carried forward for up to five taxable years. However, unused credits for tax years ending prior to January 1, 2001 may be carried forward for up to ten taxable years if the unused credit amount relates to equipment meeting the definition for eligible equipment in effect for tax years beginning on or after January 1, 2001. The amount carried forward in accordance with this rule that may be used in any one tax year is limited to \$100,000. However, if the taxpayer's investment credit base for the taxable year is less than \$100,000, the amount of the carryforward that may be used in any one tax year is \$100,000 plus the difference between \$100,000 and the taxpayer's investment credit base for the taxable year, but not more than \$200,000. The total credit claimed, however, may not reduce the tax liability below that of the previous year after all other credits and may not reduce the tax liability of the current year to below zero. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 300; P.L. 2001, c. 358, Pt. M, p. 247.

Sawmill Biomass Credit. 36 M.R.S.A. § 5219-T. This credit is repealed, retroactive to August 11, 2000. *See* L.D. 300; P.L. 2001, c. 358, Pt. O, §§ O-1 & O-6, pp. 248-249.

Pension benefits income deduction: Military pensions. 36 M.R.S.A. § 5122(2)(M). Military pension benefits are now fully deductible up to \$6,000. Military pension benefits include benefits received as a result of service in the active or reserve components of the Army, Navy, Air Force, Marines, or Coast Guard. Other employer-sponsored pension benefits are deductible up to \$6,000 less any social security or railroad retirement benefits received during the taxable year. Individuals receiving both a military pension and other eligible pension benefit may claim a total pension deduction of not more than \$6,000. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 300; P.L. 2001, c. 358, Pt. CC, pp. 269-270.

Pension benefits income deduction: Primary recipient. 36 M.R.S.A. § 5122(2)(M). The law clarifies that only the primary recipient of eligible pension benefits qualifies for the pension deduction. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 1613; P.L. 2001, c. 396, § 34.

Seller-sponsored loans. 36 M.R.S.A. § 5122(2)(A). Taxpayers may no longer subtract interest received from seller-sponsored loans. A seller-sponsored loan is a loan made by a seller of agricultural land to a person who continues to use the land for commercial agricultural purposes. Effective September 20, 2001. *See* L.D. 803; P.L. 2001, c. 177.

1984 income addition offset. 36 M.R.S.A. §§ 5122(2)(D) and 5200-A(2)(E). The deduction that allowed taxpayers to recover a 1984 income addition related to federal deductions for certain depreciable property is repealed. The negative modification was available for tax years 1985-87 only. Effective September 20, 2001. *See* LD #803; P.L. 2001, c. 177.

Holocaust victims' settlements. 36 M.R.S.A. § 5122(2)(O). Settlement payments received by Holocaust victims are exempt from Maine individual income tax to the extent included in federal adjusted gross income. A Holocaust victim is an individual who died, lost property, or was a victim of persecution between January 1, 1929 and December 31, 1945 in Nazi Germany or in any European country allied with or occupied by Nazi Germany. A Holocaust victim includes the spouse or descendent of a Holocaust victim. The exemption applies only to the first taxpayer (the Holocaust victim or the spouse or descendent of the Holocaust victim) receiving a Holocaust victim settlement payment. A settlement payment eligible for the exemption includes: 1) payment as a result of the taxpayer's status as a Holocaust victim; 2) payment as a result of the settlement of a Holocaust-related claim; or 3) interest on any settlement payment accumulated through the date of payment. Applies to tax years beginning on or after January 1, 2001. *See* L.D. 855; P.L. 2001, c. 439, Pt KK, pp. 164-165.

Seed Capital Tax Credit. 36 M.R.S.A. § 5216-B. Temporary changes recently made to the credit are made permanent. These changes include: 1) increasing the percentage of invested cash eligible for a credit certificate from 30% to 40%; 2) authorizing the Finance Authority of Maine ("FAME") to issue advance credit certificates up to 20% of cash investments in, or unconditionally committed to, private venture capital funds; 3) capping the aggregate investment in any one business from any one private venture capital fund at \$1,000,000; 4) capping at \$200,000 the aggregate investment made by any one investor in any one business that is eligible for a tax credit certificate; 5) increasing the gross sales limit of eligible businesses from \$2,000,000 to \$3,000,000 for purposes of investments that are eligible for a tax credit certificate; 6) clarifying that investments from a private venture capital fund by a principal owner and the principal owner's spouse and relatives do not qualify for a credit certificate on the investments in that business; 7) limiting the credit to investment amounts representing not more than 50% ownership in an eligible business; and 8) clarifying that the owners of flow-through entities (partnerships, S corporations, LLCs, nontaxable trusts, etc.) are considered the investors for investments made by the flow-through entity in private venture capital funds. Three additional changes are made: 1) the aggregate amount available for the credit is increased to \$12,000,000 (\$8,000,000 through calendar year 2001; \$10,000,000 through calendar year 2002; \$11,000,000 through calendar year 2003; and \$12,000,000 thereafter); 2) the timing for claiming the credit is lengthened from 50% in each of two years to 15% for each of the first six years (beginning with the year the credit certificate is issued) and 10% in year seven; and 3) FAME is required to report to the legislature in January 2002 and 2003 regarding the dollar value, number of certificates awarded, and location of businesses receiving eligible investments. Applies to tax credit certificates issued on or after September 20, 2001 and to eligible investments made on or after that date. *See* L.D. 1298; P.L. 2001, c. 446.

Credit for dependent health benefits paid. 36 M.R.S.A. § 5219-O. The law clarifies that employers with fewer than five employees qualify for the dependent health benefits credit. Previously, only employers with fewer than five *low-income* employees qualified for the credit. The credit is based on the benefits paid for low-income employees. *See* L.D. 1613; P.L. 2001, c. 396, § 39.

The next issue of the Tax Alert will have detailed explanation of the changes in the Business Equipment Tax Reimbursement Program (BETR). For other legislative changes please go to our website and click on the icon *for tax law changes for the 1st regular session of the 120th Legislature.*

E-Mail Replaces USPS Mail

In an effort to expedite the distribution and reduce the overhead cost of the Tax Alert and other informational releases Maine Revenue Service is focusing on the use of e-mail. We will be asking that you sign up at our web site for automatic notification of the posting of the Tax Alert and other informational releases. We expect that at year-end we will discontinue mailing out the Tax Alert. We would like to thank you for your cooperation and solicit any suggestions that you may have concerning how we may better serve your State of Maine tax information needs.

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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	tax_compliance@state.me.us
Corporate Tax	(207) 624-9670	(207) 287-6627	corporate_tax@state.me.us
Electronic Funds Transfer	(207) 287-8276	(207) 287-6965	electronic_funds_transfer@state.me.us
Estate Tax	(207) 626-8480	(207) 624-9694	income_estate_tax@state.me.us
Fuel Tax	(207) 624-9745	(207) 287-6628	sales_tax@state.me.us
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	income_estate_tax@state.me.us
Insurance Premium Tax	(207) 624-9582	(207) 624-9694	
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	property_tax@state.me.us
Public Communications	(207) 287-6838	(207) 287-3618	
Sales Tax	(207) 287-2336	(207) 287-6628	sales_tax@state.me.us
Taxpayer Advocate	(207) 624-9649	(207) 624-9694	abandoned_property@state.me.us
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	withholding_tax@state.me.us

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