



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

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Public Communications Tel: (207) 626-8475

Using the Augusta Formula to Claim Factor Relief

A corporation with dividends from unitary foreign affiliates included in its Maine taxable income may claim apportionment factor relief on its Maine corporate income tax return.

Maine law allows a corporation to exclude from its income 50% of the dividends received from foreign unitary affiliates during the tax year which were not subject to the "dividends received" deduction for Federal purposes (36 M.S.R.A. ' 5200-A (2)(G)). The remaining 50% are included in the corporation's apportionable income with no corresponding adjustment to the corporation's apportionment factor. In 1991, the Maine Supreme Court held in Tambrands, Inc. v. State Tax Assessor, 595 A.2d 1039, that a corporation with foreign source dividends from unitary affiliates included in its Maine apportionable income was entitled to apportionment factor relief.

Responding to Tambrands, the State Tax Assessor developed the "Augusta formula" to ensure that a corporation's apportionment factor fairly represents the corporation's business activity in the State.

The amount of factor relief, if any, is calculated by first determining the corporation's Maine taxable income using the following three methods:

- A) Maine's statutory "domestic" system, including the appropriate amount of foreign source dividends;
- B) Worldwide combination;
- C) Maine's statutory system, but excluding dividends from unitary foreign affiliates.

The tentative worldwide taxable income (B) establishes a ceiling on the corporation's taxable income for the year. If the corporation's taxable income calculated under Maine's statutory provisions (A) is less than under worldwide combination (B), no factor relief will be provided.

If the corporation's taxable income calculated under Maine's statutory provisions (A) exceeds taxable income under worldwide combination (B), factor relief is warranted sufficient to reduce the corporation's taxable income to the greater of:

- 1) Taxable income using worldwide combination (B); or
- 2) Taxable income using Maine's statutory system, but excluding dividends from unitary foreign affiliates (C).

Augusta formula factor relief was upheld by the Maine Supreme Court in E.I. DuPont deNemours & Co. v. State Tax Assessor, 675 A.2d 82 (Me. 1996). If factor relief is warranted, the overall apportionment factor should be decreased to a level which, when applied to the corporation's apportionable income, results in taxable income equal to the taxable income as calculated by the Augusta formula (no. 1 or 2 above). The reduced apportionment factor should be entered on the corporation's Maine income tax return. The individual factors for sales, property, and payroll should not be adjusted.

A corporation claiming factor relief under the Augusta formula is required to attach to its return a cover letter claiming factor relief; a copy of the calculation of taxable income using the three methods above (A, B, and C) in columnar form; and sufficient documentation to support the calculation of Maine taxable income under worldwide combined reporting .

State of Maine - Individual Income Tax

1999 Rates

1999 Inflation Factor is .982

Note: Since the Inflation Factor is less than 1.000, no inflation adjustments have been made in the tax rate schedule dollar bracket amount (see 36 MRSA §5403). The personal exemption amount was established through recent legislation and is not subject to the inflation adjustment for tax year 1999.

Do not use these tax rate schedules to determine income tax withholding from wages.

Tax Rate Schedule #1

For Single Individuals and Married Persons Filing Separate Returns

If the taxable income is	The tax is:
Less than \$4,150	2.0% of the taxable income
\$4,150 but less than \$ 8,250	\$ 83 plus 4.5% of excess over \$ 4,150
\$8,250 but less than \$16,500	\$ 268 plus 7.0% of excess over \$ 8,250
\$16,500 or more	\$ 846 plus 8.5% of excess over \$16,500

Tax Rate Schedule #2

For Unmarried or Legally Separated Individuals who qualify as Heads-of-Households

If the taxable income is:	The tax is:
Less than \$6,200	2.0% of the taxable income
\$6,200 but less than \$12,400	\$ 124 plus 4.5% of excess over \$ 6,200
\$12,400 but less than \$24,750	\$ 403 plus 7.0% of excess over \$12,400
\$24,750 or more	\$1,268 plus 8.5% of excess over \$24,750

Tax Rate Schedule #3

For Married Individuals and Surviving Spouses Filing Joint Returns

If the taxable income is:	The tax is:
Less than \$8,250	2.0% of the taxable income
\$8,250 but less than \$16,500	\$ 165 plus 4.5% of excess over \$ 8,250
\$16,500 but less than \$33,000	\$ 536 plus 7.0% of excess over \$16,500
\$33,000 or more	\$1,691 plus 8.5% of excess over \$33,000

Personal Exemption: \$2,750

Standard Deduction: Single - \$4,300

Head-of-Household - \$6,350

Married Filing Jointly - \$7,200

Married Filing Separate - \$3,600

Additional Amount for Age or Blindness:

\$850 if married (whether filing jointly or separately) or a qualified surviving spouse. The additional amount is \$1,700 if one spouse is 65 or over and blind, \$1,700 if both spouses are 65 or over, \$3,400 if both spouses are 65 or over and blind, etc.

\$1,050 if unmarried (single or head-of-household). The additional amount is \$2,100 if the individual is both 65 or over and blind.

Note: If taxpayer can be claimed as a dependent on another person's return, the standard deduction is the greater of \$700 or earned income plus \$250 (up to the standard deduction amount).

Some Legislative Changes to Sales Tax

Establishments, like rent-to-own companies, which are engaged in renting audio tapes, audio equipment and furniture, will be required to collect sales tax on rental payments received beginning with rental agreements entered into on or after October 1, 1999. In addition, the rental company's purchase of such items to rent will be exempt. Prior to this change, such companies were required to pay tax when purchasing these items for rental and not collect tax on the rentals received.

Beginning September 18, 1999, the sale of prepaid calling cards and prepaid calling arrangements are subject to tax at the time the card or arrangement is sold. Previously, the sale of prepaid calling cards and arrangements were treated as prepayments of future telecommunications service and not subject to tax at the time of sale. Whether or not the services were taxable were determined as each call was made.

Beginning September 18, 1999, the trade-in of a truck camper against the purchase of a camper trailer or another truck camper is allowed as a credit against the sale price before calculating the sales tax. Previous to this since slide-in truck campers were not considered "camper trailers", no sales tax credits for trade-ins were allowed. Purchasers of truck campers at casual sale will be required to pay use tax as a prerequisite to registration.

Retailers with more than \$250,000 of tax remittance during a calendar year have been required to file estimated payments on the 24th of the month. Recent legislation repealed that provision effective September 18, 1999. As a result, the last required estimated payment is August 24, 1999. Estimated filers should have received notification of this repeal with their August voucher.

Maine Tax Forum

The Maine Tax Forum hosted by Maine Revenue Services, the Internal Revenue Service and Thomas College is scheduled for November 18-19, 1999 at the Augusta Civic Center. Business taxpayers, accountants, attorneys, insurance professionals, financial planners, tax practitioners, bankers, tax return preparers and others who need to keep informed of changing and existing tax laws should attend. A total of 16 hours of CPE credits will be available. The fee is \$30 per day for each registrant, which includes tuition, refreshments, lunch and Forum materials. You can obtain more information by calling Laurie Mullens at (207)624-9623.

Elderly-Low Drug Card Program

Maine Revenue Services has issued proposed Rule 902, which outlines the application process for the Low-Cost Drug Card Program for the Elderly and Disabled. The proposed rule, in response to a legislative mandate, also describes the procedures used by the State Tax Assessor in determining an applicant's eligibility for the program if a substantial change in circumstances results in a reduction in the applicant's household income. For a copy of the proposed rule, contact David Bauer at (207) 287-6243, or Anthony Gould at (207) 626-8460. The comment deadline is September 24, 1999.

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) 287-3301	(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) 287-6627	electronic_funds_transfer@state.me.us
Estate Tax	(207) 626-8480	(207) 624-9694	income_estate_tax@state.me.us
Excise Tax	(207) 287-3851	(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
Paym't Plan/Income Tax	(207) 621-4300	(207) 621-4328	
Payment Plan/Other	(207) 287-3301	(207) 287-6627	
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2011	(207) 287-6396	property_tax@state.me.us abandoned_property@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) 287-4562	(207) 287-3294	
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	withholding_tax@state.me.us

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