



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 10, No. 2

April/May/June 2000

Public Communications Tel: (207) 287-6838

Dear Maine Tax Alert Reader:

One of the more frustrating aspects of my work at Maine Revenue Service (MRS) is reviewing appealed assessments in situations where it's clear that honest and well-intentioned taxpayers feel "blindsided" by the law or our legal interpretation of the law. I believe that most taxpayers want to comply with Maine's tax laws, but barriers created by lack of resource, inadequate communication, employee turn-over and training issues, workload burdens on small business owners, reluctance to ask for professional help, and complicated tax law, make it understandably difficult.

How can we remove these barriers in a meaningful way for these taxpayers? Taxpayers want to do the right thing; we want to help. For example, we offer new business registrants the opportunity to have a revenue agent meet with them to provide and review MRS publications for their type of business and answer questions regarding tax record keeping procedures. The Sales Tax Division offers Symposiums across the State to keep business owners and practitioners informed about tax administration policies. We sponsor the Tax Forum program to share the expertise of tax professionals with the business community. But, despite our outreach efforts and the work you do, there are still taxpayers who slip through the cracks.

What other services could we offer that would make a difference to taxpayers? Clearly, MRS has the primary responsibility for preparing "official" informational publications to help taxpayers comply with Maine law, and we must and will continue to improve outreach programs within our resource constraints. However, the relatively small percentage of both business and individual taxpayers who accept our offer of front-end assistance suggests that there is reluctance to directly engage our services. Any help you can provide in overcoming this barrier would be greatly appreciated; particularly for clients who cannot afford the full service tax-consulting package you may offer.

I'm searching for ideas on how we can best help those who want to be helped, but who haven't plugged into the assistance programs. I'd appreciate any thoughts you may have. Please email me at anthony.j.neves@state.me.us or call 207-287-6965.

Anthony J. Neves
Executive Director

Rule 808 Amended

Rule 808 describes the circumstances under which an out-of-state corporation is subject to the income tax jurisdiction of Maine under Title 36 M.R.S.A., Section 5200. The rule has been amended to provide that the activities in Maine of an independent contractor on behalf of a foreign corporation will be imputed to the corporation if the activities are significantly associated with the foreign corporation's ability to establish and maintain a market in Maine, to the extent allowed by the Constitution and laws of the United States. Various other minor amendments and updates to the rule have been made as well. Please contact David Bauer, General Counsel with any questions. His e-mail address is david.e.bauer@state.me.us or call (207) 624-9681.

MRS Proposes Amendments to Rule 806

Rule 806 provides guidance for nonresident individuals of Maine relating to income subject to Maine's income tax. Amendments are being proposed to:

- A. Bring the Rule into agreement with a law change relating to income thresholds and to clarify that employers are required to withhold income tax from a nonresident employee who is working in Maine and who is expected to exceed the thresholds.
- B. Add a new section regarding income tax credits. Personal credits are to be prorated based on the ratio of Maine income to total income. Business credits related to a business being operated in Maine can be claimed in total subject to the limitations contained in the law.
- C. Add a new subsection to clarify that retirement income, including pensions and deferred compensation, received after termination of employment that is exempt from state income taxes under federal law is exempt from Maine income tax.

Various other minor amendments and updates to the rule are being proposed. A complete copy of the rule as amended is available on the MRS website or is available by mail. Comments, questions, and requests for copies of the proposed amendments should be directed to David Bauer, General Counsel, 24 State House Station, Augusta, Maine 04333, e-mail him at david.e.bauer@state.me.us or call (207) 624-9681. Comment deadline is July 12, 2000.

The Maine Employers' Forum

Wednesday, July 19, 2000 get answers from experts, learn about consulting services and have access to computer, software and reference material. The Maine Employers' Forum will be held at the Business Information Center of Maine, Bates Mill Complex, 35 Canal Street, Lewiston, Maine. This is a joint initiative of Business Information Center of Maine, Department of Labor, Immigration & Naturalization Service, IRS Taxpayer Advocate Service, Maine Revenue Services, Service Corps of Retired Executives and U.S. Small Business Administration. For more information call Krista Bishop at (207)626-9128 or e-mail: krista.bishop@irs.gov.

Annual Sales/Use Tax Filers

All annual filers in the sales and use tax types will be changed to semi-annual filers in the very near future. This is necessitated by the fact that the sales tax rate reduces to 5% on July 1. As a result, all annual filers will file a return in July for the first six months of 2000 reporting tax at 5.5% and file another in January 2001 for the last six months of 2000 reporting tax at 5%. In January 2001, all accounts which were converted in this manner will be changed back to annuals provided they are still active and still at a semi-annual frequency.

Income/Estate Tax Division Director Selected

Former Assistant Attorney General Dennis Doiron has accepted the position of Director of the Income/Estate Tax Division effective June 5, 2000. Mr. Doiron has worked for the Maine Attorney General since 1994. In that capacity, at various times, he represented Maine Revenue Services and the Department of Education. Previously, for about two years, he had been employed in a private law firm. In the early 1980s, he worked in Maine state government in management roles for approximately seven years. Mr. Doiron has a Masters Degree in Public Administration and a law degree from the University of Maine School of Law.

Credit for Taxes Paid to Another Jurisdiction – Massachusetts

The starting point for the Maine Schedule 3 (credit for taxes paid to another Jurisdiction) is the Maine adjusted gross income. Credit is allowed based on the percentage of income taxed by the other jurisdiction that is included in that figure. The policy of Maine Revenue Services is to find the equivalent to Maine adjusted gross income on the return filed with the other jurisdiction. The word equivalent is emphasized, because no two states have exactly the same income modifications.

In reviewing the Massachusetts nonresident or part-year resident tax return, it has been determined that Massachusetts requires the filer to report all 5.95% income from Massachusetts sources and income earned as a resident of that state. The 5.95% income is reduced by certain allowable deductions which, according to the instructions, “differ from itemized deductions on Schedule A of U.S. Form 1040”.

The deductions include: (1) the amount paid to Social Security, Medicare, Railroad Retirement, U.S. or Mass. Retirement limited to \$2,000 each per taxpayer and spouse; (2) expenses for the care of a child under 13 or a disabled dependent/spouse, or a deduction for a dependent member of the household under age 12; (3) 50% rental deduction (limited); and, (4) other Schedule Y deductions. Schedule Y deductions are made up in part by the adjustments to federal income; i.e., alimony paid, MSA deduction, student loan interest deduction and others. All of these deductions and those listed in the previous sentence are limited for the nonresident or part-year resident either by the income earned in Massachusetts or the number of days spent in Massachusetts.

The amount that may be included on line 10 of Maine Schedule 3 (Maine residents only) is equal to the income derived from sources in the other jurisdiction, that is subject to income tax in that jurisdiction, and that is analogous to “Maine adjusted gross income” (federal adjusted gross income plus or minus income modifications). The amount is exclusive of standard/itemized deduction and personal exemption amounts.

While the deductions on the Massachusetts return are not the same as on the Maine return, they are similar in nature. Therefore, the sum of lines 21, 23b, 25a and Schedule D lines 22a, b, c, and d from the 1999 MA Form 1 NR/PY is considered to be analogous to Maine adjusted gross income and may be included on line 10 of Maine Schedule 3.

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	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) 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 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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MAINE REVENUE SERVICES
24 State House Station
Augusta ME 04333-0024
Return Service Requested