



# MAINE TAX ALERT

**A Publication of Maine Revenue Services for Tax Professionals**

**Volume 15, No. 8**

**October, 2005**

**Public Communications Tel: (207) 626-8478**

## MRS'S NEW MISSION STATEMENT:

The mission of Maine Revenue Services is to serve the citizens of Maine by administering the tax laws of the State effectively and professionally in order to provide the revenues necessary to support Maine government. To accomplish this mission, we will:

- Foster voluntary compliance with the tax laws by providing clear, complete, accurate, and timely guidance to taxpayers to help them understand and meet their responsibilities under the law.
- Maintain the highest standards of integrity, fairness, confidentiality and courtesy in everything we do.

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## Tax Practitioner Institute

This year's Tax Practitioner Institute, hosted by the Service Corps of Retired Executives Association (SCORE), will be held at three locations in Maine on November 8 (Bangor), November 10 (Augusta), and November 17 (Portland).

Federal and state tax specialists will present workshops designed for those interested in keeping abreast of federal and state tax laws and regulations. The Institute provides 8 hours (including one hour of ethics) of CPE credits.

Seating will be limited and registrations will be accepted by mail only. For more information on Institute programs and locations and for registration forms, contact SCORE at (207) 622-8509 or visit the Maine Revenue Services web site at [www.scoremaine.org/0\\_main/Brochure2005.pdf](http://www.scoremaine.org/0_main/Brochure2005.pdf).

## Corporate Income Tax Apportionment

During the 2005 session, the Legislature amended the corporate income tax calculation for multistate corporations. The applicable apportionment factor for each taxable corporation is applied now to the *total tax* rather than to total income prior to the calculation of the tax. This change applies to multistate businesses only. Corporations with 100% of their activity in Maine will calculate the Maine income tax the same way as in previous years. For multistate businesses, this calculation change is reflected on the 2005 Maine income tax form (1120ME) in that the apportionment factor calculated on Schedule A is now applied to the business' gross tax rather than the adjusted federal income. Corporations filing amended returns are cautioned to use the correct return for the specific

year of amendment. Using an incorrect amended return may result in a miscalculation of Maine income tax. The change applies to tax years beginning on or after January 1, 2005.

In October, Maine corporate income taxpayers that calculated an apportionment factor of less than 1.00 (100%) will be mailed a specific notification explaining the law change. Businesses with adjusted federal income of less than \$25,000 will not see a difference in their tax.

## MRS Eliminates Personalization of Wage Detail

Maine employers are required to report the amount of Unemployment Contribution (“UC”) wages paid and Maine income tax withheld from each employee on Schedule 2/C1 of the Maine Combined Quarterly Return, Form 941/C1-ME.

In past years, Maine Revenue Services (“MRS”) has preprinted Schedule 2/C1 with employee demographic data, including the name and social security number of each employee on record with the Department of Labor, for each registered employer. Because of concerns with identity theft, over the past several years MRS has discontinued the use of social security numbers in mass mailings. The personalized withholding forms contain a significant amount of personal information, including names, social security numbers and place of employment.

Therefore, consistent with our efforts to protect identity information, **starting with the first quarter of 2006, Maine Revenue Services will no longer preprint employee data on Schedule 2/C1.**

Employers who have enjoyed the convenience of having this data preprinted on their paper return are urged to consider filing their return over the internet. Filing online is fast and easy because, once the employee data is entered into the Maine Revenue Services internet filing system, it is retained until the employer changes it, eliminating the need to enter the same data each quarter.

## Upgrades to Maine's CQR Internet Filing System

Maine Revenue Services is nearing completion of significant upgrades to its internet filing system for payroll returns (Forms 941-ME and 941/C1-ME). The new system is designed to provide a convenient and secure method of filing Quarterly Returns electronically. Newly added features include easier navigation, the ability to resume the filing process if your connection is interrupted, and the ability to upload wage and withholding information using an Excel spreadsheet. But perhaps the most beneficial change is that the system will now pre-fill portions of Schedules 1 and 2, thereby reducing the time it takes to complete the filing process. The changes are expected to be implemented before the end of the fourth quarter of 2005.

For questions about the changes above, or about filing payroll returns over the internet, contact the MRS Withholding Unit via email at [withholding.tax@maine.gov](mailto:withholding.tax@maine.gov), or by phone at 207-626-8475 (select 1, then option 4).

## Significant Changes to Maine's Magnetic Media Filing Process

Maine Revenue Services is in the process of replacing its magnetic media filing system. The current system requires employers and payroll preparers who wish to submit returns in ICESA file format to do so on magnetic media. The new system will allow ICESA files to be uploaded via the Maine Revenue Services web site, thereby eliminating the need to ship magnetic media.

The file specifications have also been revised effective for the first quarter of 2006. Any employers or processors who currently submit ICESA files to Maine Revenue Services or to the Maine Dept. of Labor that include Maine income withholding must conform to the new specifications beginning with the first quarter of 2006. A draft copy of the new specifications is available at [www.maine.gov/revenue/magmedia/magmedia.html](http://www.maine.gov/revenue/magmedia/magmedia.html). Of particular significance is a new requirement that any file that includes Maine income withholding must include both the withholding return (the entire T-record) and withholding detail (the S-record). Employers will no longer be allowed to "split" their return (i.e. submit the withholding return on paper and the withholding detail on magnetic media). Maine Revenue Services will work with employers who currently file on magnetic media to transition to the new electronic file upload process.

For questions about uploading ICESA files over the internet, including file specifications, contact the MRS Withholding Unit via email at [icesa.tax@maine.gov](mailto:icesa.tax@maine.gov), or by phone at 207-626-8475 (select 1, then option 4).

## Implementation of Electronic Filing Requirement for Forms 941ME and 941/C1-ME

Effective the second quarter of 2006, any employer filing Form 941ME or Form 941C/1-ME with 100 or more employees must submit its returns to Maine Revenue Services by electronic means. Payroll processors as defined in 10 M.R.S.A., chapter 222 that submit returns for 100 or more employers must also file electronically.

An employer or payroll processor who is required to file electronically that fails to do so two or more times during any 6 month period may be subject to a penalty of \$50 per return.

All Employers and Payroll Processors who meet the electronic filing thresholds must begin filing electronically beginning with the second quarter of 2006. Anyone that cannot reasonably comply with the requirements may request a hardship exemption for a limited time period. Employers and Payroll Processors who fail to file both second and third quarter returns electronically as required and who have not received an exemption may be subject to penalty.

## Pine Tree Development Zone Credit

The following technical changes were made to the Pine Tree Development Zone program during the last legislative session:

- Base period employment measure is changed to match all aspects of the program. Employment for a particular year is now measured on 3/31, 6/30, 9/30 and 12/31, then divided by four. Effective June 9, 2005.
- Qualified employees no longer have to be Maine residents for purposes of qualification for the program. Applies retroactively to June 12, 2003.
- The insurance premiums tax and PTDZ income tax credits are now available for a span of ten years from the year of certification, regardless of whether a tax return is due to MRS. Prior law applied the ten-year availability of the program to only those years in which a tax return was required. Applies retroactively to tax years beginning on or after January 1, 2004.
- Only unitary affiliates need be included in the insurance premiums or income tax credit apportionment calculation. Previously, all affiliates were required to be included. Applies retroactively to tax years beginning on or after January 1, 2004.
- For purposes of the tax credits, the terms “property” and “payroll” are defined as follows:

“Property” means the average value of the taxpayer’s real and tangible personal property that is owned or rented and used during the tax period. Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at 8 times the net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer (36 M.R.S.A. §§ 2529 & 5219-W). Applies retroactively to tax years beginning on or after January 1, 2004.

“Payroll” means the total amount paid in this State during the tax period by the taxpayer for compensation, including wages, pretax employee contributions made to a benefit package and employer contributions made to an employee benefit package (36 M.R.S.A. §§ 2529 & 5219-W). Applies retroactively to tax years beginning on or after January 1, 2004.
- The definitions for affiliated businesses are changed so that all agree. The definition now reads as follows:

"Affiliated business" means a member of a group of 2 or more businesses in which more than 50% of the voting stock of each member corporation or more than 50% of the ownership interest in a business other than a corporation is directly or indirectly owned by a common owner or owners, either corporate or noncorporate, or by one or more of the member businesses (36 M.R.S.A. § 6753(1-A)). Effective June 9, 2005.
- Rather than specify a calculation for determining employee shifting for purposes of calculating the Employee Tax Increment Financing benefit, the determination is now to be made by the commissioner of the Department of Economic and Community Development. Applies retroactively to applications submitted on or after September 13, 2003.

The statutory language for these and other technical changes to the Pine Tree Development Zone program can be found in LD #449, PL 2005, c. 351.

## 2006 Individual Income Tax Rates

Below are the individual income tax rate schedules for tax years beginning in 2006. The rate schedules for 2005 are found at [www.state.me.us/revenue/forms/1040/2005/RateSched05.pdf](http://www.state.me.us/revenue/forms/1040/2005/RateSched05.pdf).

### State of Maine - Individual Income Tax - 2006 Rates 2006 Cost-of-Living adjustment is 1.0948

Note: The 2006 tax rate schedule dollar bracket amounts are adjusted by multiplying the cost-of-living adjustment, 1.0948, by the dollar amounts of the tax rate tables specified in 36 M.R.S.A. § 5111 subsections 1-B, 2-B and 3-B (see 36 M.R.S.A. § 5403). The personal exemption amount is not subject to the inflation adjustment for tax year 2006.

**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 \$4,550	2.0% of the taxable income
\$ 4,550 but less than \$ 9,100	\$ 91 plus 4.5% of excess over \$ 4,550
\$ 9,100 but less than \$18,250	\$ 296 plus 7.0% of excess over \$ 9,100
\$ 18,250 or more	\$ 937 plus 8.5% of excess over \$18,250

#### 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 \$6,850	2.0% of the taxable income
\$ 6,850 but less than \$13,650	\$ 137 plus 4.5% of excess over \$ 6,850
\$13,650 but less than \$27,400	\$ 443 plus 7.0% of excess over \$13,650
\$27,400 or more	\$ 1,406 plus 8.5% of excess over \$27,400

#### Tax Rate Schedule #3

For Married Individuals and Surviving Spouses Filing Joint Returns

If the taxable income is:	The tax is:
Less than \$9,150	2.0% of the taxable income
\$ 9,150 but less than \$18,250	\$ 183 plus 4.5% of excess over \$ 9,150
\$18,250 but less than \$36,550	\$ 593 plus 7.0% of excess over \$18,250
\$36,550 or more	\$ 1,874 plus 8.5% of excess over \$36,550

**Personal Exemption:** \$2,850

**Standard Deduction:**

Single - \$5,150

Married Filing Jointly - \$8,600

Head-of-Household - \$7,550    Married Filing Separate - \$4,300

Additional Amount for Age or

Blindness:

\$1,000 if married (whether filing jointly or separately) or a qualified surviving spouse. The additional amount is \$2,000 if one spouse is 65 or over and blind, \$2,000\* if both spouses are 65 or over, \$4,000\* if both spouses are 65 or over and blind, etc.

\*If married filing separately, these amounts apply only if you can claim an exemption for your spouse.

\$1,250 if unmarried (single or head-of-household). The additional amount is \$2,500 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 \$850 or earned income plus \$300 (up to the standard deduction amount).

## 2005 Tax Forms

Form 2333ME for ordering 2005 tax forms is now available on the Maine Revenue Services web site at [www.maine.gov/revenue/forms/general/2333\\_05.pdf](http://www.maine.gov/revenue/forms/general/2333_05.pdf). A printed version of Form 2333ME is also available by calling (207) 624-7894 to leave your name and address.

<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	
Appellate	(207) 624-9854	(207) 287-3294	
Central Registration	(207) 287-2338	(207) 287-3733	<a href="mailto:division.uctax@maine.gov">division.uctax@maine.gov</a>
Collections & Compliance	(207) 624-9595	(207) 287-6627	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Corporate Tax	(207) 624-9670	(207) 624-9694	<a href="mailto:corporate.tax@maine.gov">corporate.tax@maine.gov</a>
E-file Help Desk	(207) 624-9730	(207) 624-9740	<a href="mailto:efile.helpdesk@maine.gov">efile.helpdesk@maine.gov</a>
Economic Research	(207) 624-9789	(207) 287-3618	
Electronic Funds Transfer	(207) 287-8276	(207) 287-6627	<a href="mailto:efunds.transfer@maine.gov">efunds.transfer@maine.gov</a>
Estate Tax	(207) 626-8480	(207) 624-9694	<a href="mailto:estatetax@maine.gov">estatetax@maine.gov</a>
Fuel Tax	(207) 624-9745	(207) 287-6628	<a href="mailto:fuel.tax@maine.gov">fuel.tax@maine.gov</a>
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	<a href="mailto:income.tax@maine.gov">income.tax@maine.gov</a>
Insurance Premium Tax	(207) 624-9753	(207) 624-7729	
Payment Plan/Income Tax	(207) 621-4300	(207) 621-4328	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Payment Plan/Other	(207) 624-9595	(207) 287-6627	<a href="mailto:compliance.tax@maine.gov">compliance.tax@maine.gov</a>
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2011	(207) 287-6396	<a href="mailto:prop.tax@maine.gov">prop.tax@maine.gov</a>
Public Communications	(207) 626-8478	(207) 624-9694	
Sales Tax	(207) 624-9693	(207) 287-6628	<a href="mailto:sales.tax@maine.gov">sales.tax@maine.gov</a>
Tax Clearance Letters	(207) 624-9628	(207) 287-6627	
Taxpayer Advocate	(207) 624-9649	(207) 287-3618	<a href="mailto:taxpayer.advocate@maine.gov">taxpayer.advocate@maine.gov</a>
TTY Service	(888) 577-6690		
Withholding Tax	(207) 626-8475	(207) 624-9694	<a href="mailto:withholding.tax@maine.gov">withholding.tax@maine.gov</a>
Tax Violations Hot Line	(207) 624-9600		

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

John Elias Baldacci, Governor

Rebecca M. Wyke, Commissioner  
Administrative and Financial Services

Jerome D. Gerard, Acting Executive  
Director, Maine Revenue Services

Suggestions for the Tax Alert?

**Please contact: Public Communications (207) 626-8478**  
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