



# MAINE TAX ALERT

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## Maine Revenue Services Rulemaking Activity

Several MRS rulemaking proposals are in process.

- Proposed Rule 101 ("Calculation of Interest") sets forth the standard interest rate established pursuant to 36 MRSA § 186 that is charged against unpaid taxes and paid by the State on overpayments of taxes, and explains how monthly compounding of interest works.
- Rule 806, which has been in place since 1987 and has been amended several times, is being amended to reflect recent statutory changes affecting the taxable thresholds applicable to nonresidents.
- Rule 318, which has been in place for many years, explains the application of the exemption from Maine Sales or Use Tax provided in 36 MRSA §1760, sub-§41 for a vehicle, railroad rolling stock, aircraft or watercraft placed in use by the purchaser as an instrumentality of interstate or foreign commerce. It is being updated to reflect a statutory change specifying that the vehicle or other item must be used in interstate or foreign commerce more than 80% of the time during the two years following its purchase in order to be exempt.
- Rule 320, which explains the taxation of fabrication services (now taxed under the Service Provider Tax rather than the Sales Tax), is being repealed since new, more comprehensive and up-to-date guidance covering the same subject matter has been prepared. This guidance is available at [www.maine.gov/revenue/salesuse/spt/spt.html](http://www.maine.gov/revenue/salesuse/spt/spt.html).
- Finally, minor amendments needed to reflect statutory changes have been proposed to Rule 321, which explains the application of the Sales and Use Tax Law to the provision of meals in the wild by persons licensed as outfitters or guides by the Department of Inland Fisheries and Wildlife.

The comment deadline for Rules 318, 320 and 321 is October 16; the deadline for Rules 101 and 806 is October 23. Comments (or questions) may be directed to David Bauer at Maine Revenue Services, 26 Edison Drive, Augusta, ME 04333, or by e-mail at [david.e.bauer@maine.gov](mailto:david.e.bauer@maine.gov).

## Maine Revenue Services Rule 803 Revised

Maine Revenue Services recently completed revisions to Rule 803, “Withholding Tax Reports and Payments.” The new rule, which may be viewed on the MRS web site at [www.maine.gov/revenue/rules/](http://www.maine.gov/revenue/rules/), includes changes reflecting the recently enacted electronic filing mandate and various other changes. Among other things, the amended rule:

- Incorporates the statutory requirement for certain employers and payroll processors to file quarterly returns and the Annual Reconciliation (Form W-3ME) by electronic means. Electronic filing is required for employers, and third party filers filing on behalf of employers, with 100 or more employees, and for licensed payroll processors filing returns on behalf of 100 or more clients. The new electronic filing requirements are already in effect. Information about electronic filing is available on Maine Revenue Services web site at [www.maine.gov/revenue/netfile/gateway2.htm](http://www.maine.gov/revenue/netfile/gateway2.htm).
- Eliminates the “Married with Two Incomes” withholding rate and instead provides that a married employee or payee may elect withholding at the single rate. As a result, the 2007 Maine Withholding Tables booklet will **not** include the “Married with Two Incomes” withholding tax schedules and tables. Maine Form W-4ME has been revised to reflect this change.
- Clarifies that a nonresident employee who is exempt from Maine income tax due to the 10-day nontaxable threshold is exempt from Maine withholding and is not required to complete Form W-4ME unless the threshold is exceeded.
- Requires employers to maintain records adequate to establish how many days a nonresident employee worked in Maine.
- Revises the circumstances under which an employer or other payer must withhold at the maximum rate. These include situations in which an employee has not provided Form W-4ME to the employer; the employee’s federal Form W-4 or Maine Form W-4ME is invalid; or an employee’s current Maine withholding variance certificate has expired and the employee has not provided a new certificate or a completed Form W-4ME.
- Clarifies that withholding on periodic retirement payments is calculated in the same manner as withholding on wages.
- Incorporates an option for employees with no Maine tax liability in the current or prior year to elect out of Maine income tax withholding. The election must be renewed annually.
- Incorporates an option for recipients of periodic retirement payments who have no Maine tax liability to elect out of Maine income tax withholding.

- Revises the criteria under which an employer or other payer must submit copies of an employee's Form W-4ME to Maine Revenue Services. Employers must now submit a copy Form W-4ME to MRS if required to submit Form W-4 to the IRS or if an employee with a non-Maine address claims exemption from Maine withholding and the employer expects to pay the employee \$5,000 or more in Maine source compensation for the year. Forms W-4ME are not required to be submitted for employees exempt from withholding due to the 10-day nonresident threshold.
- Clarifies that employers or other payers who did not withhold Maine income tax from employees or payees during the year are not required to submit an Annual Reconciliation (Form W-3ME).

Except for the electronic filing requirements, all changes to Rule 803 are effective January 1, 2007.

## Revised Form W-4ME

Form W-4ME has been updated to incorporate the new optional single withholding rate for married employees and the new elections for exemption from Maine income tax withholding. Employers and other withholders must begin using the new version of Form W-4ME on or before January 1, 2007 for all new employees and payees and all employees and payees who make any changes to their withholding. The revised version of Form W-4ME will be available on Maine Revenue Services web site in October.

Existing employees and payees will not need to complete a new Form W-4ME unless they wish to make a change to their withholding, take advantage of one of the new exemptions or (for married taxpayers) to elect withholding at the single rate. Employees who are currently withholding at the "Married with Two Incomes" rate will need to submit a new Form W-4ME by January 1, 2007, at which time the employee must select a withholding rate specified on the form.

## FORM 706ME

The 2006 version of Form 706ME (Maine Estate Tax Return) is now final. The form will be printed over the next two weeks and orders for printed forms will be filled when the forms are delivered. The form can also be downloaded at [www.maine.gov/revenue/forms](http://www.maine.gov/revenue/forms). This form is for filing estate tax returns for 2006 decedents. The Maine exclusion amount for 2006 is \$1 million. There are two significant changes to the 2006 form. Line 6, formerly for death taxes paid to another jurisdiction, has been removed. Maine no longer taxes out-of-state property of resident decedents and, therefore, a tax credit based on taxes paid to other jurisdictions is no longer necessary. Additionally, a line for federal prior taxable gifts is included on the 2006 form. Federal prior taxable gifts are used in determining the taxable nature of an estate. These gifts, however, are *not* included in the Maine estate tax calculation. The additional line does not represent a change in policy. Federal prior taxable gifts have always been included in determining whether or not an estate is taxable by Maine.

<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>
Economic Research	(207) 624-9789	(207) 287-3618	
E-file Help Desk (1040 ONLY)	(207) 624-9730	(207) 624-9740	<a href="mailto:efile.helpdesk@maine.gov">efile.helpdesk@maine.gov</a>
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	
NexTalk (TTY Service)	(888) 577-6690		
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) 287-2013	(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>
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

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Suggestions for the Tax Alert?

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