

# MAINE TAX ALERT

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**MAINE COMBINED FORM**

**SPECIAL ISSUE**

## **Unemployment Contributions and Withholding Tax**

**Effective January 1, 1997**

The Department of Labor and the Bureau of Taxation have been working together since January of this year on combining the income tax withholding forms with the unemployment contribution form. Sections of Maine law and rules have been changed by both agencies to coordinate due dates, acceptable filing and payment methods and penalty rates so that both the income tax withholding and unemployment insurance contribution could be recorded, filed and paid, together. In this issue of Tax Alert, we will describe most of the changes associated with the combined form. The instruction booklets and forms are close to final draft form.

In late August, we presented seminars in Presque Isle, Augusta, Orono and Portland to a total of at least 600 employers and accountants. Many changes were made to the draft forms and to the procedure based upon the suggestions and comments of the business folks at these seminars. The questions and answers which you see in this issue have been developed from the questions received during the seminars.

As you follow the development of the combined form, please remember that the new form and procedures will be in use for payrolls paid on or after January 1, 1997.

For payroll before January 1, 1997: Payroll tax filings and payment for 1996 wage periods will be made based on the current forms and following current rules. Withholding tax returns for the last quarter or month or other filing period of 1996 are due on January 21, 1997. The new procedures do not affect your filing and payment obligations until you are required to report and pay obligations arising from 1997 payroll.

Employers must be registered for unemployment contribution and for withholding tax before filing these returns. This requirement has not changed.

### **When to expect your new Combined Form Booklets**

Because all combined form filings will be quarterly, beginning in 1997, you will not receive your Combined Form Instruction and Forms Booklets until late February or March. The first Combined Form 941/CN1-ME or 941/CS1-ME Maine will be due on April 30, 1997, the last day of the month following the end of the quarter. Semi-weekly and monthly payroll reporting agents will receive payment vouchers in December. Employers who do not incur unemployment contribution obligations during 1996 will receive 1997 forms booklets for withholding tax only.

### **When to expect your new Combined Payment Voucher books**

Businesses required to make withholding payments more frequently than quarterly will receive payment voucher booklets in late December. For instance, the business which is now required to make monthly or semi-weekly withholding tax payments will receive voucher booklets with instructions in December. Businesses which make only quarterly payments, will pay both withholding tax and unemployment contribution with the quarterly return on April 30 for the First Quarter '97.

The quarterly tax returns will include space for reconciliation of withholding tax amounts paid during the quarter to determine any additional amounts due with the return.

### 1997 Combined Form Booklet

Booklets are titled: State of Maine, Bureau of Taxation and Department of Labor - 1997 - Combined Filing For Income Tax Withholding and Unemployment Contributions, Form 941CN1-ME or 941/CS1-ME. Each booklet for semi-weekly, weekly and monthly filers will include the following:

- General instructions, explanation of electronic funds transfer option, W-3 Reconciliation requirements
- Cancellation/change form for your account
- Tax calendar
- Instructions for the withholding section of the form
- Instructions for the unemployment contribution section of the form
- Form 941/CN1-ME or 941/CS1-ME
- Reconciliation of 900ME voucher or EFT payments made during the quarter
- Unemployment contribution wage listing pages
- Amended Form 941A-ME with instructions
- Amended Unemployment contributions Form C1A-ME with instructions
- Reconciliation of Maine Income Tax Withheld Form W-3ME
- Record Keeping sheet
- Labels for mailings

We expect that the booklets will supply most employers with the forms they will need for all 1997 filings, payments with additional forms and instructions.

### A Simplified System for Determining Filing and Payment Schedules for Combined Filing

#### Filing Schedules

<u>Current Filing Schedule</u>	<u>Combined Filing Schedule</u>	<u>Combined Form*</u>
Monthly	Quarterly	Form 941/CN1-ME
Quarterly	Quarterly	Form 941/CN1-ME
Seasonal	Quarterly	Form 941/CN1-ME
Semi-Annual	Quarterly	Form 941/CN1-ME
Annual	Quarterly	Form 941/CN1-ME

#### Payment Schedules

<u>Current Payment Schedule</u>	<u>Combined Payment Schedule</u>	<u>Payment with:</u>
Semi-weekly	Semi-weekly	Form 900ME Voucher**
Monthly	Monthly	Form 900ME Voucher**
Quarterly	Quarterly	Form 941/CN1-ME
Seasonal	Quarterly (or Monthly)	Form 941/CN1-ME
Semi-Annual	Quarterly	Form 941/CN1-ME
Annual	Quarterly	Form 941/CN1-ME

**\* For employers classed as "seasonal" under labor regulations: Form 941/CS1-ME.**

**\*\* Payment for the 3rd month of the quarter will be made with the quarterly return.**

Payment frequency is determined by the "lookback period." There has been no change in the thresholds for payment frequency. As in previous years, we will be running a "lookback period" evaluation of all withholding accounts. Employers required to pay withholding taxes semi-weekly or monthly will receive payment voucher booklets in late December. All other employers will pay both withholding taxes and unemployment contributions quarterly with the quarterly returns. All employers will receive the quarterly return booklets in late February or March in time for the April 30 due date of the first quarterly return for 1997. As in other years, some employers will find that their payment frequency requirements for withholding taxes will change as a result of the annual evaluation by the Bureau of Taxation.

For the purposes of withholding, the seasonal classification has been eliminated; however, labor regulations do still include a "seasonal" category for employers. The "seasonal" category does not affect the payment and filing requirements, but does determine the booklet the employer will receive. "Seasonal" employers will receive the Combined Form 941/CS1-ME.

For unemployment insurance contributions, the quarterly filing and payment schedules which employers have followed in the past remain unchanged. Withholding tax payment and filing schedules have been adapted to the quarterly filing format.

### **Payment Due Dates**

For all employers, other than semi-weekly remitters, payments will be due on the last day of the month following the end of the payment period. The combined return, Form 941/CN1-ME or 941/CS1-ME will reconcile the semi-weekly, weekly or monthly payments made during the quarter.

### **For employers remitting withholding tax monthly**

For the monthly remitter, the payment of income tax withheld for the first two months of each quarter will be made with Form 900ME vouchers. For example, payment of income tax withheld during January 1997 will be due on February 28, 1997 with a Form 900ME voucher. Payment for the third month of each quarter will be made with the Quarterly Form 941/CN1-ME or Form 941/CS1-ME due on the last day of the month following the end of the quarter. Therefore, payment for March 1997 will be made with the first Quarterly Combined Return on April 30, 1997.

### **Employers remitting withholding tax semi-weekly**

The semi-weekly remitter will make payments on the same schedule as in the past. Because of the timing of those payments, the quarterly combined return will include payment for unemployment insurance contributions but will only include a withholding tax amount if the quarterly return reconciliation of the semi-weekly payments results in an additional amount due.

### **Employers remitting withholding tax quarterly**

For the quarterly remitter, the combined payment will be due at the same time as the combined return: on the last day of the month following the end of the quarter. The combined payment will be the total of income tax withholding and the unemployment insurance contribution for the quarter just ended.

For all employers which have in the past filed withholding tax annually or semi-annually, payments will be due quarterly with the quarterly combined return. The annual and semi-annual filing categories for withholding tax have been eliminated beginning with January 1, 1997 for the combined return.

### **Exceptions to Combined Filing**

Certain types of employment situations do not require filing of both unemployment insurance contribution and withholding tax. For example: an employer with multiple locations may still file unemployment by location. As a result, withholding tax will be filed on a single combined return and separate combined returns will be filed for each location. However, the state will not initiate any change for the multiple location employer from the way the employer is currently filing for his employees.

Many of Maine's municipalities are responsible for filing their own withholding tax filings and will receive a booklet for withholding tax alone. The Maine Municipal Association fulfills unemployment insurance contributions requirements and sometimes also withholding tax requirements for its members as part of their member services. The Maine School Management Association offers similar services for member schools.

Governmental entities and non-profit organizations which have elected to be direct reimbursers for unemployment insurance purposes will use the combined form to report the information required for unemployment and to make their payments and file their quarterly return for withholding tax. Direct reimbursers will continue to be billed directly on a monthly basis by the Department of Labor, but only when a liability is incurred.

## **Filing Options**

The Bureau of Taxation and the Department of Labor are offering four filing methods to employers for the combined form. The state will provide printed forms in the Combined Form Booklet.

**1. Scannable forms:** *These are the forms with red boxes to provide a placement guide for the data you add to the form. The original of the scannable form must be filed with the state. You may keep copies for your own records, but must use the original printed form for filing. These forms are spaced to equal the spacing on most typewriters. You may use white-out to correct errors on these printed forms. Please apply the white-out very carefully and only where necessary.*

**2. Facsimile forms:** *The Bureau of Taxation will provide forms as loose pages of "trac feed" to be filled out using a word processor or spreadsheet program. The data must print out on the forms exactly as indicated. The scanner can read the data accurately only if it is correctly placed on the form. We require courier 10 pi font or other monospaced font produced by a laser printer for these forms. Proportioned fonts (such as Times Roman) are not acceptable.*

**3. Forms completed with the use of tax software:** *Software which allows for data entry into the software and computes and prints out the completed form. These are referred to as substitute forms. We are providing the specifications for these forms to software developers. Please call (207) 626-8485 for a copy of these specifications. The software developer will request a barcode for each form they plan to produce. The draft form with the barcode issued to the developer must be submitted to the Bureau of Taxation for review with the scanning equipment. When the form is filed, the scanner will recognize the form by its barcode.*

**4. Magnetic filing:** *For the combined form, both magnetic media filing and electronic funds transfer will be offered. For 1997, we will accept the CESA format for filing and a nonstandard format for the wage detail, if previously approved by the Department of Labor prior to 1997. Both the EIN and unemployment contributions number for the employer should be on the tape. Employers of any size may use this option. Employers currently using an approved nonstandard format for the wage detail will be allowed to continue to use this.*

We will provide the specifications for tax software developers and for magnetic media filing on the **Taxation webpage** at <http://www.state.me.us/taxation>. Also any specific requests and comments will reach us quickly if you use the e-mail through the webpage or **e-mail to: [maine.taxation@state.me.us](mailto:maine.taxation@state.me.us)**

We will use the Tax Alert to let you know which software developers have expressed an interest in providing software to support Maine's new combined form.

## **Payment Options**

Electronic Funds Transfer will be accepted for payment of the combined form payments of withholding tax and unemployment contributions. Employers must be able to use the ACH Credit method to participate in EFT with the Bureau of Taxation. Under the ACH Credit method, the employer initiates the payment instructions to their bank. For an application or more information, call the EFT Unit at (207)287-8276 or write to EFT Unit, Bureau of Taxation, 24 State House Station, Augusta, ME 04333-0024. We expect to have EFT instructions on the webpage also.

## **Wage Listing**

Employers with fewer than (approximately) 120 employees will have the names and social security numbers of their employees preprinted on the wage detail, except for "seasonal" employers and employers known to be magnetic filers. We will also provide blank wage detail pages in the booklets. Employers with over 250 employees must file the wage data via magnetic media. Any employer wishing to file the wage data separately on magnetic media will send that wage detail directly to the Department of Labor.

## **Year End Reconciliation of Maine Withholding - Form 3ME**

For employers participating in the IRS Federal/State Combined Filing Program, the Bureau will provide instructions for completing the state record fields.

Employers who file paper W-2s with the IRS, will file only the form W-3 reconciliation with the Bureau of Taxation.

Employers who file magnetic media with the IRS and do not participate in the IRS Federal/State Combined filing, must file magnetic media or paper W-2s with the Bureau of Taxation.

## **Payment Application**

Payment application is governed by Rule 803 and the rules governing the administration of Employment Security law. The amendments to the rules are still subject to change as they go through the public comment period in November. Generally, payment application is likely to be as follows:

- { Payments received with Form 900-ME will be applied entirely to estimated withholding tax liability for the period indicated on the voucher.
- { Payments made with returns will be allocated based upon the balance due after any correction of computations for each part of the return.
- { Payments made on bills will be allocated based on the balance due for each tax listed on the bill.

## **Interest and Penalty on Overdue Payments**

As of January 1, 1997, interest accrues at 10% per year, compounded monthly on the unpaid withholding tax or unemployment contribution balance. The penalty for failure to pay either the withholding or unemployment due on time is 1% per month, up to a maximum of 25%. The penalty for failure to file the return on time is

10% of the tax liability or \$25, whichever is greater. This change was made as part of the coordination of penalties between Labor and Taxation required for the combined form. An employer may receive a penalty for underpayment and nonfiling for each of the two taxes.

### **Rule 803: Withholding Tax Reports and Payments**

This rule was amended in early 1996 to allow for the many changes since the previous amendment in 1991. As a result of the law and procedure changes for the combined filing of employers' withholding and unemployment requirements, Rule 803 is being amended again and this revision is currently in the rule comment process.

The 1997 Rule 803 changes the filing frequency to quarterly for all accounts. It establishes the three payment frequencies: semi-weekly, monthly and quarterly. The rule clarifies procedures for invalid forms W-4 submitted by employees by requiring that employers submit to the Bureau of Taxation any forms W-4 which they are required to submit to the IRS. The rule also simplifies the annual reconciliation process and clarifies the state requirements for employers who report W-2 information to the Internal Revenue Service and Social Security Administration via magnetic media.

### **Frequently Asked Questions**

**Question:***My business is located in three towns with payroll in each. How do I file the combined form?*

**Answer:** Most businesses will be able to continue to file as they have in 1996. For example, an employer who has selected the option of filing separate unemployment contribution and wage reports for each business location may use a separate combined form for each location. That same employer may file withholding tax for all those locations on one combined form, and payment vouchers if the employer's payment frequency requires withholding tax payments more often than quarterly.

**Question:** What if my business has no payroll for the quarter? Do I have to file anyway?

**Answer:** You must file all scheduled returns on their due dates, whether or not you have any tax or contribution due.

**Question:***Who do I call if I have questions about the new the combined form?*

**Answer:** Please call Anthony Gould (207) 626-8460 with questions during November and December.

**Question:***How do I find out how often I have to make withholding tax payments for my business?*

**Answer:** Employers will continue to make withholding tax payments either semi-weekly, monthly or quarterly. You will be notified by letter in December of your withholding tax payment schedule for 1997. The determination is made through the "lookback" method as in previous years.

**Question:***If I do not receive vouchers before the payment due date of my first payment resulting from 1997 payroll, how will I pay to be sure that my company will receive credit for the payment?*

**Answer:** You should include a letter with your company name, withholding tax identification number to request Form 900ME vouchers for future payments. Include your account number and "Withholding Tax Jan-Mar 1997" on the check. Send your check to:  
Bureau of Taxation, P.O. Box 1061, Augusta ME 04332-1061.

**Question:***If there is some confusion about my combined form filing and payments, will this affect a former employee who is filing for unemployment benefits?*

**Answer:**No. This situation will not affect the former employee.

**Question:***My business will close in March, 1997. How can I be sure that I will not receive delinquent notices after the first quarter?*

**Answer:**On your last return, be sure to check the "final" box to indicate that you will no longer have a liability for those taxes. If your business will no longer have any payroll for the foreseeable future, you could also check the "final" box.

**Question:***I use a payroll service. Will they be able to file the combined form for my business? Also, what if my company will continue to file unemployment, and the payroll service prepares only the withholding tax?*

**Answer:**Many payroll services will be able to file the combined form for their customers. If the payroll service prepares your withholding tax and you file the unemployment tax, you should advise the Central Registration at (207) 287-2338 so you will receive the forms you need to file the unemployment tax. The payroll service will file your withholding tax using one of the filing methods acceptable to the Bureau of Taxation.

**Question:***How will employers that have both seasonal and nonseasonal employees report wage detail information on the quarterly return?*

**Answer:**Any employer that is classified as seasonal for Unemployment Contributions purposes will file one form for each quarter to report wage detail information for all employees, both seasonal and non-seasonal.

**Question:***If I prefer to send separate checks for the two taxes, may I do so?*

**Answer:**Yes. Both checks will be processed with your combined return. Your total payment will be applied following the payment application rules.

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This special issue devoted to the Combined Form may not answer all your questions. Some issues remain to be decided. Other issues are very detailed and will be covered in the instructions you will receive in the combined form booklets.

We look forward to working with the tax professional, payroll processors, software developers and business communities during the next year to bring the new Combined Form to a point where the filing and payment procedures are as easy as they can be within the requirements of state and federal laws. We expect to be able to improve the Combined Form in the next year and will welcome your suggestions and comments.

## **Questions on the Combined Form?**

**Write to us. Use our e-mail: [maine.taxation@state.me.us](mailto:maine.taxation@state.me.us)  
or through our webpage: <http://www.state.me.us/taxation>**

**for quick service.**

**Telephone numbers:**

To Request Forms	Forms Request Line (207) 624-7894
To Register or Change Registration	Central Registration (207) 287-2338
Taxpayer Assistance - withholding tax:	Withholding Unit (207) 626-8475
Taxpayer Assistance - unemployment contributions:	Unemployment (207) 287-3176
For magnetic filing information:	Scott Armington (207) 287-6370
For electronic funds transfer information:	Paula Cole (207) 287-8276