



MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 8, No. 2

FEBRUARY/MARCH 1998

Public Communications Tel: (207) 626-8475

ROTH IRAS

The Taxpayer Relief Act of 1997 created Roth IRAs as an alternative investment for individual retirement plans. As a result, Maine Revenue Services has received many inquiries concerning the tax implications at the state level. Because Maine tax is based on the federal adjusted gross income, Maine will conform to federal requirements. Therefore, contributions to a Roth IRA are taxable by Maine to the extent included in federal adjusted gross income.

Maine will recognize the 4-year averaging of distributions resulting from the conversion or rollover of a standard IRA into a Roth IRA during 1998. As the Roth IRA laws specifically exempt qualified conversions and rollovers from the federal 10% penalty on early distributions from qualified retirement plans, the related Maine penalty (15% of the federal penalty) will also not apply.

This information reflects current Maine law and assumes full conformity with the Internal Revenue Code as of December 31, 1997. The conformity bill is expected to be passed during the current legislative session.

LONG-TERM HEALTH CARE INSURANCE

Some individuals will receive double benefits on a portion of their qualified long-term care insurance premiums if the cost has been claimed as an itemized deduction on the federal and state returns. The taxpayer would also be able to claim a Schedule 1 income modification on the Maine return for the same premiums.

S-CORP AND PARTNERSHIP TRANSMITTALS

We will provide up to 25 free copies of the Maine Transmittal Form for Information Returns, 1065-ME and 1120-S ME, to tax professionals. Maine Revenue Services does not automatically mail copies of these forms to taxpayers. Therefore, we make them available without charge. They can be ordered by calling our forms request line at (207)624-7894 or FAX your request to (207)626-3517.

FORM W-4

The federal Form W-4 has been revamped to allow individuals eligible for the new Child Tax Credit to claim more personal allowances. In the past, most taxpayers claimed the same withholding allowances for both federal and state tax purposes; however, the additional allowances claimed for the Child Tax Credit may result in the underwithholding of Maine income tax. It may be necessary for taxpayers to complete an additional W-4 for state tax purposes.

A Form W-4ME for state purposes only is under consideration. If you have any comments either for or against such a form, please let us know.

WITHHOLDING PAYMENT FREQUENCY

Just a reminder that, beginning January 1998 there are only two payment frequencies for withholding: (1) semiweekly with form 900ME; and (2) quarterly with the return.

Also W3 Filings should not include payments. If an error is found during the W3 reconciliation, an amended quarterly return and payment must be filed. The same rule applies to 900 payments that should be submitted only with a form 900ME.

For those looking for 1998 Withholding or Combined Quarterly Reporting booklets, the

Withholding booklets were mailed in February and mailing of the CQR booklets is expected to be completed by March 15. If you, or your client, have not received the proper booklet by March 23, call us at (207)626-8475.

INTERNET FILING

Maine Revenue Services had planned to provide an Internet application for filing Combined Quarterly Returns in April. Unfortunately, other projects have delayed the start up by several months. We'll keep you informed on this topic through future issues of Tax Alert and on our home page at <http://janus.state.me.us/revenue>.

DIRECT DEPOSIT OF REFUNDS

Many more taxpayers are taking advantage of the availability of direct deposit this year. As of the end of February, over 5,000 taxpayers requested that their refunds be deposited directly into an existing checking or savings account compared with less than 1,000 during all of 1997.

The visibility and convenience of having the additional lines as part of the existing 1040 return instead of on a separate form appears to have made the difference. Direct deposit reduces processing time, saves money, and substantially reduces the possibility of a lost or misplaced check.

TAXPAYER ASSISTANCE TELEPHONES

The Income Tax Division installed a new telephone monitoring system last September that has greatly enhanced our ability to handle incoming telephone calls. Supervisors are able to make adjustments to staff availability based on the volume at any time during the day. Since installation of this system, the Income Tax Division has routinely been able to answer 98% of all calls before the caller decides to abandon the call.

In addition to this system, a queue has been added which allows the caller the option of waiting, rather than having the call dropped if an examiner is not immediately available. Some individuals have expressed a dislike of working through the menu, but otherwise we have had a positive response to this system.

- Expanded telephone taxpayer assistance is available for the filing season between the hours of 8:00 a.m. and 9:00 p.m., Monday - Friday, through April 30 at (207)626-8475.

If you're having a problem with a particular client's account, you can call the Tax Practitioner Hotline at (207)626-8458. DO NOT share this number with your clients as use by taxpayers may make the line inaccessible to you.

The Income Tax Division tries to have the Practitioner Hotline staffed at all times; however, on occasion it may be necessary to leave a message. All calls will be returned within 24 hours. Include the taxpayer's name, taxpayer identification number and, if possible, a brief description of the problem. We will then be better prepared to assist you when your call is returned.

EXTENSION TO FILE

Remember, extensions to file are due by the original due date of the return, or April 15 for most calendar year income tax filers. At least 90% of the tax liability must be paid, by the due date, with the extension request to avoid penalties for failure to pay and failure to file. We will accept copies of the federal extension Form 4868 or the new Form 4477ME.

NOTE: A TAXPAYER SIGNATURE IS NOT REQUIRED ON FORM 4477ME.

Exception: Information returns, Form 1065ME/1120S-ME, and federal information returns may be filed with a copy of the federal extension attached when filed on or before the extended due date.

NEXUS

In July 1996, 36 M.R.S.A. ' 1754-B(1)(G) was enacted to expand the requirements for registration of out-of-state sellers of tangible personal property or taxable services by broadening what constitutes substantial physical presence to satisfy the due process and commerce clauses. This law conveys to Maine businesses that we promote free trade as long as laws are consistently applied within and outside Maine.

To effectively administer these new requirements, Maine Revenue Services established the Nexus Unit in January 1997. The primary function of the unit is to determine if an entity has nexus with Maine and to proceed with informing them of their registration requirements. Educating taxpayers with regard to their reporting responsibilities is a vital step in this process.

Since July 1997, the Nexus Unit has secured 134 new voluntary registrations for sales/use tax from out of state businesses.

APPELLATE DECISIONS

In a recent reconsideration case involving a New Hampshire resident who had worked at the Portsmouth Naval Shipyard, a bonus received as an incentive to retire from the Portsmouth Naval Yard was held to be Maine-source income under 36 M.R.S.A. ' 5142 and subject to Maine income tax.

In another case, the estate of a deceased person had applied for a Low Income Tax and Rent refund. The Income Tax Division denied the application, because the person died before the application was filed. The denial was upheld on reconsideration, because the estate was not a claimant as defined in 36 M.R.S.A. ' 6102(2) and the deceased person's right to file a claim ended with his death. See 36 M.R.S.A. ' 6202.

COURT DECISIONS

State v. Daniel Coyne

Daniel J. Coyne of Cousin's Island, Yarmouth, Maine pleaded guilty to four counts of "Failure to File Maine Income Tax Returns" in the Portland District Court before Active Retired Judge Bernard Devine on February 6, 1998. The charges represented Mr. Coyne's failure to file, despite his substantial income, for the years 1993-1996.

Coyne was sentenced, pursuant to plea agreement to the following:

Count I: 9 months all but 15 days suspended, probation 1 year.

Count II: 9 months all suspended, probation one year, consecutive.

Counts III & IV: A \$500 fine on each count.

In addition, restitution of \$27,389 was ordered to be paid within 30 days, and a special condition of probation was imposed that Coyne must file and pay all future returns and taxes on time.

Coyne has been granted work release, to which the State assented.

State v. Joseph Hackett

Joseph Hackett of Caribou, Maine pleaded guilty to four counts of "Failure to Truthfully Account for and Pay Over Collected Sales Tax" before Judge Daigle in the Caribou District Court on February 13, 1998. Hackett pled guilty to these charges which arose out of the operation of his restaurant which operated under the names "Yuseph's" and "Joe Hackett's Steak & Seafood" over the period of time from 1989-1996.

Judge Daigle imposed a sentence that was a plea agreement of the parties on all issues except for restitution. On that issue, argument was heard and the Court imposed its own restitution order. The sentence imposed was as follows:

Count I: 9 months all but 30 days suspended, probation one year.

Count II: 9 months all suspended, probation one year, consecutive to Count I.

Count III: 9 months all suspended, probation one year, consecutive to Count II.

Count IV: 9 months all suspended, probation one year, consecutive to Count III.

Restitution of \$75,000 was ordered, both as a part of the sentence and as a special condition of probation. Hackett was ordered to report his progress towards the restitution to the Court at least every six months.

MAINE REVENUE SERVICES <http://janus.state.me.us/revenue>

...Order tax forms through the WebPage?...YES!

SUGGESTIONS FOR TAX ALERT?

**Please contact: Maine Revenue Services
Public Communications Director
24 State House Station
Augusta, ME 04333-0024**

STATE OF MAINE

Angus S. King, Governor

**Janet E. Waldron, Commissioner
Administrative and Financial
Services**

TAX QUESTIONS? PLEASE CONTACT US:

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|-------------------------------------|----------------------|---------------------------|
| Maine Revenue Services | (207)287-2076 | FAX (207) 287-4028 |
| Central Registration | (207)287-2338 | FAX (207) 287-3733 |
| Collections & Compliance | (207)287-3301 | FAX (207) 287-6627 |
| Corporate Tax | (207)624-7876 | FAX (207) 287-4028 |
| Electronic Funds Transfer | (207)287-8276 | FAX (207) 287-6396 |
| Estate Tax | (207)626-8480 | FAX (207) 287-4028 |
| Excise Tax | (207)287-3851 | FAX (207) 287-6628 |
| Forms Request Line | (207)624-7894 | FAX (207) 622-3517 |
| Income Tax Assistance | (207)626-8475 | FAX (207) 287-4028 |
| Paym't Plans/Income Tax | (207)621-4300 | FAX (207) 621-4328 |
| Payment Plans/ Other | (207)287-3301 | FAX (207) 287-4028 |
| Practitioners' Hotline | (207)626-8458 | FAX (207) 287-4028 |
| Property Tax | (207)287-2011 | FAX (207) 287-6396 |
| Sales Tax | (207)287-2336 | FAX (207) 287-6628 |
| Taxpayer Advocate | (207)287-4562 | FAX (207) 287-6627 |
| TTY Service | (207)287-4477 | ----- |
| Withholding Tax | (207)626-8475 | FAX (207) 287-4028 |

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