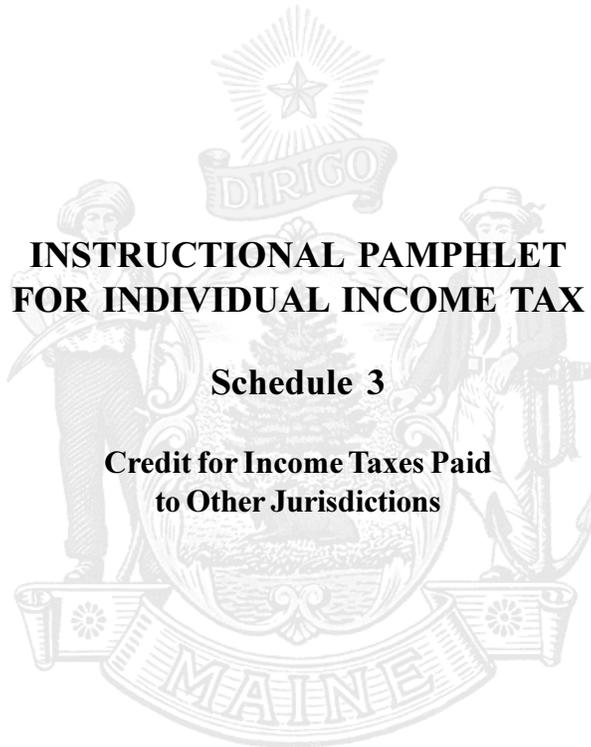


MAINE REVENUE SERVICES

**Income/Estate Tax Division
24 State House Station
Augusta, ME 04333-0024**



INSTRUCTIONAL PAMPHLET FOR INDIVIDUAL INCOME TAX

Schedule 3

**Credit for Income Taxes Paid
to Other Jurisdictions**

Use Maine Revenue Services' Web site (www.state.me.us/revenue) to download tax forms and instructions or obtain tax information, including tax laws and regulations.

To receive forms by mail, call (207) 624-7894. The forms line is available every day, 24 hours a day. Please allow two weeks to receive the forms you order.

For additional assistance with your tax questions, call (207) 626-8475. The taxpayer assistance lines are available weekdays, 8:00 a.m. - 5:00 p.m.

To arrange a payment plan, call (207) 621-4300. The lines are available weekdays, 8:00 a.m. - 5:00 p.m.

SCHEDULE 3 CREDIT FOR INCOME TAXES PAID TO OTHER JURISDICTIONS

WHO MAY CLAIM THE CREDIT?

Generally, if a **resident** of Maine is required to pay income taxes to another jurisdiction, that person may claim a credit on the Maine individual income tax return for the taxes paid to the other jurisdiction (36 MRSA, §5217-A). The credit is calculated on Maine Schedule 3, entered onto Maine Schedule A, and appears as a tax credit on page 1 of the Maine Long Form (1040ME). The credit is limited to the Maine tax calculated on the income taxed by the other jurisdiction or the actual tax assessed on that income by the other jurisdiction, whichever is less.

A **nonresident** of Maine may not claim a credit for income taxes paid to another jurisdiction on Schedule 3; instead, nonresidents are allowed a credit based on the amount of non-Maine source income as calculated on Schedule NR or NRH, instead of the Schedule 3 credit. A part-year resident usually cannot claim a Schedule 3 credit. However, a situation may occur where a part-year resident is entitled to a Schedule 3 credit (*see* “Double Credit” on page 5).

GENERAL INFORMATION

The other taxing jurisdiction must be another state of the United States, a political subdivision of any state, the District of Columbia, or a political subdivision of a foreign country that is analogous to a state of the United States (for example, New Brunswick, Canada). If a resident has to pay income taxes to both a state and a political subdivision of a state (usually a city), the taxes of the state and the political subdivision must be combined when calculating the allowable credit on Schedule 3.

The credit is limited to the portion of the individual’s Maine income tax that relates to the income being taxed by the other jurisdiction. The credit also cannot be more than the income tax actually paid to the other jurisdiction. *See* Schedule 3 worksheet on page 4. The credit is calculated by dividing the income taxed by the other jurisdiction by the taxpayer’s Maine adjusted gross income. Next, multiply the Maine tax liability (before credits) by this percentage to determine the amount of Maine tax that relates to the income being taxed by the other jurisdiction. The lesser of this amount or the actual taxes paid to the other jurisdiction is the amount of the credit.

***For example,** Mildred Jones is a Maine resident and had Maine adjusted gross income of \$50,000 in 2001. \$10,000 of her income was earned in Massachusetts, and Massachusetts is taxing her on that income. Let’s assume that Mildred’s income taxes for Maine are \$3,000 based on \$50,000 Maine adjusted gross income. Her income taxes for Massachusetts are \$595 based on \$10,000 in Massachusetts wages. The portion of Mildred’s \$3,000 tax liability due to Maine that is attributable to the \$10,000 earned in Massachusetts is \$600 (\$10,000 divided by \$50,000, which is 20%, times \$3,000). She may claim a \$595 credit for taxes paid to Massachusetts (the lesser of \$600 and \$595 of actual taxes assessed by Massachusetts). In this example, Mildred receives a full credit for the taxes paid to Massachusetts; however, if her Maine tax liability had only been \$2,000, and the Massachusetts tax remained the same, she would have only received a \$400 credit (\$2,000 times 20%, or \$400, which is less than \$595).*

If Maine’s income tax rate is higher than another jurisdiction’s income tax rate, the taxpayer will usually get credit for the entire amount of taxes actually paid to the other jurisdiction. If Maine’s tax rate is lower than the other jurisdiction’s rate, then the taxpayer will usually get credit only for the percentage of the Maine tax that relates to the income taxed by the other jurisdiction.

An individual may use only the actual amount of income taxes imposed by the other jurisdiction as the basis for the Schedule 3 credit, which is not the amount of income taxes withheld to that jurisdiction. Income taxes imposed by another jurisdiction means the tax after credits (except withholding and estimated tax payments). To

continue with the example above, let's assume that Massachusetts had withheld \$700 from Mildred's paychecks. When she completed her Massachusetts income tax return, she was entitled to a \$105 refund (\$700 withholding minus \$595 tax liability). Mildred cannot use the \$700 withholding as the basis for the Schedule 3 credit; she may use only the \$595, her actual tax liability to Massachusetts. The \$595 is the amount of her withholdings less her refund (\$700 minus \$105). Whether Mildred received a refund or had to pay additional money, the basis for the credit is the actual tax liability to Massachusetts.

Multiple Taxing Jurisdictions: If an individual has to pay income taxes to more than one other jurisdiction, such as Massachusetts and Connecticut, the individual must complete a separate Schedule 3 for each jurisdiction. The separately calculated credits are then added together to arrive at the total credit for taxes paid to other jurisdictions. The combined total credit cannot reduce the Maine tax liability below zero.

Business Taxes: The tax eligible for the Schedule 3 credit must have been imposed on the individual. It cannot have been imposed on another entity, such as a partnership, S corporation or C corporation, even though the individual may own the company. However, an individual may claim the credit based on income taxes imposed by another jurisdiction on a sole proprietorship since this entity is not considered distinct and separate from its owner.

Taxable Year: The income tax being imposed on the individual by another jurisdiction must be for the same taxable year as the Maine return on which the individual is claiming the credit. Taxes paid to another jurisdiction for a prior year may not be claimed as a credit on a current year Maine income tax return, even if the income to which the prior year's taxes relate now appears on the Maine return.

***For example:** Ellen Davis, a resident of New York, sold a piece of property in New York in 1999 on an installment sale basis. In 2001, Ellen moved out of New York and became a Maine resident. New York required Ellen to report the entire future gain from the installment sale on her 2001 New York return or to post a bond to ensure that she filed the appropriate returns with New York until all the gain is reported. She opted to realize all the gain on the 2001 return, even though recognition of the installment sale had not changed for federal purposes. Only the actual amount of the installment sale gain realized in 2001 will appear on Ellen's federal and Maine returns. Therefore, her Schedule 3 credit for 2001 is limited to the New York tax on that portion of the gain reported to Maine. In no event may her taxes due to Maine be reduced below zero. When Ellen files her 2002 income tax returns, she will report another year's gain from the installment sale to both the IRS and to Maine. She will not be allowed to claim a Schedule 3 credit in 2002 for any taxes paid to New York, because she did not have any tax liability in New York for tax year 2002.*

Amended Return: If an individual amends an out-of-state return for a prior year, the individual may amend the Maine return for the corresponding year to claim the adjusted credit within the statute of limitation for amending the Maine return.

Maine Minimum Tax: The credit for income taxes paid to another jurisdiction cannot be used to offset any tax liability due under the Maine minimum tax. The Maine minimum tax has provisions built into its calculations to allow a credit against the Maine minimum tax if an individual is required to pay a minimum tax to both Maine and another jurisdiction.

Source of Income: Generally, any income that is taxed by another jurisdiction can be used as the basis for a Schedule 3 credit, regardless of whether the income is from tangible or intangible sources. Therefore, a taxpayer may claim a credit for taxes paid to another jurisdiction on most wages, deferred compensation, capital gains, and interest income, but only to the extent the income is also subject to Maine income tax. Income included in Maine adjusted gross income is income that is taxable to Maine. This amount is generally after income modifications but prior to itemized/standard deductions and exemption amounts. For Schedule 3 purposes, the income considered subject to the income tax of another jurisdiction is the income amount analogous to Maine adjusted gross income.

2001 - Schedule 3 - Worksheet for Credit for Income Tax Paid to Other Jurisdictions
Schedule A, Line 8

Enclose with your Form 1040ME - You must attach a copy of the income tax return filed with the other jurisdiction.

Residents may claim a credit against Maine income tax for income tax paid to another jurisdiction if all the following conditions are met: **(1)** the other jurisdiction is another state, a political subdivision thereof, the District of Columbia, Canadian Province or any political subdivision of a foreign country that is like a state of the United States; **(2)** the tax paid to the other jurisdiction is directly related to the income received during the tax year covered by this return (tax payments made to other taxing jurisdictions for prior year tax liabilities cannot be considered when computing this credit); and, **(3)** the income taxed by the other jurisdiction is derived from sources in that jurisdiction. The income considered taxed by the other jurisdiction is income, after deductions, that is analogous to "Maine adjusted gross income" (federal adjusted gross income plus or minus income modifications).

- A part-year resident can claim credit for tax paid to another jurisdiction on income earned during the period of Maine residency only.
- Line 4b is the income tax assessed by the other jurisdiction minus any tax credits (except withholding and estimated tax payments).

1	Maine adjusted gross income from 1040ME, page 1, line 16	1	
2	Income taxed by _____ (⇒ other jurisdiction) included in line 1	2	
3	Percentage of income taxed by other jurisdiction (divide line 2 by line 1 - if line 2 is greater than line 1, enter 100%)	3
4	Limitation of Credit:		
	a Form 1040ME, page 1, line 20 \$ _____ multiplied by ____ . ____ ____ on line 3 ...	4a	
	b Income taxes paid to other jurisdiction on income shown on line 2(not the amount withheld) ..	4b	
5	Allowable Credit, line 4a or 4b, whichever is less. Enter here and on Maine Schedule A, line 8 ..	5	

- **Special instructions for taxpayers who claim credit for income tax paid to more than one other jurisdiction:** Credit for each jurisdiction must be computed separately. Use a separate worksheet for each one. Print the name of the other jurisdiction in the space provided on line 2. Add the results together and enter the total on Maine Schedule A, line 8. **Attach a copy of the income tax return filed with the other jurisdiction.**
- Part-year residents who qualify for both the credit for tax paid to another jurisdiction and the non-resident credit - refer to the instructions on page 4 of the nonresident and part-year resident individual income tax booklet. This worksheet is available at www.state.me.us/revenue, or by calling 207-624-7894.

Note: You may photocopy this page if you need additional worksheets.

DOUBLE CREDIT

Schedule 3 and Schedule NR Credits, Combined

Generally, a part-year resident cannot claim both a nonresident credit (Schedule NR/NRH) and a credit for income taxes paid to another jurisdiction (Schedule 3). However, when a part-year resident of Maine earns income in another jurisdiction both as a resident and as a nonresident of Maine during the same tax year, the part-year resident may be able to claim both credits. The nonresident credit (Schedule NR/NRH) is calculated first and is based on the income earned while a nonresident of Maine. The credit for income taxes paid to another jurisdiction (Schedule 3) is calculated next and is based on the income earned while a resident. **This is the only time when a part-year resident can claim a Schedule 3 credit.** A part-year resident can usually claim a nonresident credit, provided that the individual had income as a nonresident of Maine. Following are examples of when a taxpayer can or cannot claim both credits:

Both Credits Allowable: A taxpayer lives in New Hampshire and works in Massachusetts. In June, the taxpayer moves from New Hampshire to Maine, but continues to work in Massachusetts. This taxpayer could claim both credits. The nonresident credit would be based on the income earned prior to moving to Maine. The credit for income taxes paid to another jurisdiction would be based on the income earned after moving to Maine that was also taxed by Massachusetts. The income earned before moving to Maine, although taxed by Massachusetts, could not be used when calculating the credit for income taxes paid to another jurisdiction because the taxpayer was not a resident of Maine at the time the income was earned.

Nonresident Credit Only: A taxpayer lives in New Hampshire and works in Massachusetts. In June, the taxpayer moves from New Hampshire to Maine. The job in Massachusetts is terminated at the time of the move and a new job is obtained in Maine. The taxpayer could claim a nonresident credit based on the income earned in Massachusetts while living in New Hampshire. The taxpayer could not claim a Schedule 3 credit for income taxes paid to Massachusetts because none of the income taxed by Massachusetts was earned while the taxpayer was a Maine resident.

FOLLOW THESE STEPS FOR THOSE CLAIMING BOTH CREDITS:

1. The Maine income tax return begins with federal adjusted gross income, regardless of residency status. This establishes the appropriate tax rate to be applied to the taxpayer's income earned in Maine or as a Maine resident. **Complete the Maine long form through the Total Tax line (1040ME, line 23).** (If filing Schedule NRH, refer to the instructions for Schedule NRH.)
2. **Draft Schedule A, Adjustments to Tax**, exclusive of the credit for income taxes paid to another jurisdiction (line 8). The credit for tax paid to other jurisdictions will be calculated later using Schedule 3. Do not calculate the Total Credits on Schedule A, line 25 at this point.
3. **Calculate the nonresident credit using Schedule NR/NRH** (complete Maine Worksheets A, B, and either Schedule NR or NRH according to the instructions on the form).
4. **Calculate the credit for taxes paid to other jurisdictions** according to the Schedule 3 Worksheet on page 6. Enter the result on Schedule A, line 8.
5. **Complete Maine Schedule A and the 1040ME long form return.** Attach a copy of the Schedule 3 Worksheet on page 6 and Schedule NR or NRH to your return.

MAINE SCHEDULE 3 WORKSHEET
CREDIT FOR INCOME TAX PAID TO OTHER JURISDICTIONS
(PART-YEAR RESIDENT ONLY)

You must attach a copy of the out-of-state income tax return.
 Include a copy of this worksheet with your return.

Name of other taxing Jurisdiction*: _____

***If claiming credit for income tax paid to more than one other jurisdiction**, credit for each jurisdiction must be computed separately. Use a separate Schedule 3 Worksheet for each jurisdiction. Add the results together and enter on Maine Schedule A, line 8.

1. Adjusted gross income while a Maine resident (1040ME, line 16, minus Schedule NR, line 6 or Schedule NRH, line 6, column C) \$ _____
2. Income taxed by other jurisdiction included in line 1 (See instructions below) \$ _____
3. Percentage of income taxed by other jurisdiction (divide line 2 by line 1) ____ . ____ _ _ _
4. Limitation of Credit:
 - a. Maine tax (1040ME, line 20 minus 1040ME, line 25 \$ _____ multiplied by ____ . ____ _ _ _ on line 3 above) \$ _____
 - b. Income taxes paid other jurisdiction (Not the amount withheld, see instructions below) \$ _____
5. Allowable Credit, line 4a or 4b, whichever is less. Enter here and on Maine Schedule A, line 8 \$ _____

Specific Instructions:

Line 2 Enter income included on line 1 (*based on income entered on Maine Worksheet B, column C*) that was taxed by the other jurisdiction while a Maine resident. Do not include any income that was earned while a nonresident of Maine.

Line 4b Enter the amount of income tax actually paid to the other jurisdiction on the income shown on line 2. This is the tax liability shown on the other jurisdiction's income tax return before tax payments. If income taxes were paid to the other jurisdiction both while a resident and a nonresident of Maine, prorate the amount of income taxes paid to that jurisdiction based on the percentage of the income that was earned while a Maine resident. Do not report income taxes withheld on this line.