

## MAINE REVENUE SERVICES

### TAX REFORM

# LD 1495 - PL 2009, c. 382

Read the law at:

[http://www.mainelegislature.org/legis/bills/bills\\_124th/chapters/PUBLIC382.asp](http://www.mainelegislature.org/legis/bills/bills_124th/chapters/PUBLIC382.asp)

### Individual Income Taxation

The following is a brief summary of the recently enacted tax reform law relating to individual income taxation (Part A of the law). A more comprehensive summary and guidance will be developed over the summer. **Unless otherwise indicated, all changes apply to tax years beginning on or after January 1, 2010.**

Tax Reform did not make any changes to the corporate income tax or the financial institution franchise tax.

#### Income Tax Rates

The four current marginal tax rates (2%, 4.5%, 7%, and 8.5%) are replaced with a tax rate of 6.5% of Maine taxable income. Taxpayers with taxable income greater than \$250,000 must pay an income tax surcharge equal to .35% of Maine taxable income in excess of \$250,000.

#### Standard and Itemized Deductions and Personal Exemptions are Repealed and Replaced with Tax Credits

The Maine standard and itemized deductions are repealed and replaced with several new tax credits.

##### Refundable household credit:

- Only resident individuals qualify; nonresidents and part-year residents do not qualify
- The base credit amount is \$700 for single tax return filers; \$1,050 for head of household (HH) filers; \$1,200 for married joint (MJ) filers; and \$600 for married, but filing separate (MS) filers

- The base credit amount is increased by \$250 for each exemption allowed to be claimed on federal income tax returns
- The credit is phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500 for single filers; \$41,250 for MS and HH filers; and \$55,000 for MJ filers
- The credit is refundable up to \$70 for MJ returns and \$50 for all other returns

Alternative refundable household credit:

- A taxpayer who has federal itemized deductions may elect to use this credit instead of the regular household credit
- Only resident individuals qualify; nonresidents and part-year residents do not qualify
- The base credit amount for the alternative household credit is 5.5% of adjusted federal itemized deductions plus \$400 for single filers; \$600 for MS and HH filers; \$800 for MJ filers. (The adjusted federal itemized deductions amount is calculated using Maine Form 1040ME, Schedule 2 adjustments)
- The maximum base credit amount allowed is \$1,150 for single and MS filers; \$1,750 for HH filers; and \$2,300 for MJ filers
- The base credit is increased by \$250 for each exemption claimed
- The credit is phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500 for single and MS filers; \$41,250 for HH filers; and \$55,000 for MJ filers
- The credit is refundable up to \$70 for MJ returns and \$50 for all other returns.

**Other new credits**

- Charitable Contributions credit. The credit is equal to 5% of charitable contributions claimed on the federal return exceeding \$250,000, excluding contribution deductions carried over from prior tax years.
- Elderly Credit. The credit is \$60 for each taxpayer who is 65 years of age or older. The credit is phased out by \$2 for every \$100 of Maine adjusted gross income that exceeds: \$32,000 for single filers; \$26,000 for MS filers; \$52,000 for MJ filers; and \$48,000 for HH filers.

### **Earned Income Tax Credit expanded**

The Maine earned income tax credit (EITC) is made refundable for tax years beginning after 2009. The maximum refundable amount for both the household credit and the EITC together is limited to \$150 for MJ returns and \$125 for all other returns.

### **Alternative Minimum Tax Repealed**

The alternative minimum tax (AMT) and alternative minimum tax credit for individuals are repealed. (The corporate AMT and corporate AMT credit are retained.)

### **Other “Additional Taxes” Repealed**

The additional Maine tax on **lump-sum retirement plan distributions** is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 1 and related instructions for more information on this tax addition.

The additional tax on **early distributions from qualified retirement plans** is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 2 and related instructions for more information on this tax addition.

### **Tax Credits Repealed**

- The retirement and disability credit is repealed. See the 2008 Maine Form 1040ME, Schedule A, line 5 and related instructions for more information on this tax credit.
- The low-income tax credit is repealed. See 2008 Maine Form 1040ME, line 22 and Form 1040S-ME, line 21 and related instructions for more information on this tax credit.
- The alternative minimum tax credit for individuals is repealed.

**Note: The 6.5% tax rate, but not the surcharge, will also apply to the Maine fiduciary income tax on taxable trusts and estates.**