

# MAINE STATE LEGISLATURE

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# 117th MAINE LEGISLATURE

## FIRST REGULAR SESSION-1995

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Legislative Document

No. 1521

H.P. 1079

House of Representatives, May 11, 1995

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**An Act to Make the Maine Income Tax a Percentage of the Federal  
Income Tax.**

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Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "Joseph W. Mayo".

JOSEPH W. MAYO, Clerk

Presented by Representative SIMONEAU of Thomaston.  
Cosponsored by Representatives: BUCK of Yarmouth, CAMPBELL of Holden, CARLETON  
of Wells, DiPIETRO of South Portland, HARTNETT of Freeport, JOYNER of Hollis,  
KILKELLY of Wiscasset, MARVIN of Cape Elizabeth, McALEVEY of Waterboro,  
NICKERSON of Turner, OTT of York, ROSEBUSH of East Millinocket.

Be it enacted by the People of the State of Maine as follows:

2           **Sec. 1. 24-A MRSA §5055, sub-§§2 and 5**, as enacted by PL 1989,  
4           c. 556, Pt. B, §4, are repealed.

6           **Sec. 2. 36 MRSA §5111**, as amended by PL 1991, c. 824, Pt. A,  
7           §§76 to 78 and affected by §§79, 92 and 93, is repealed and the  
8           following enacted in its place:

10       **§5111. Imposition and rate of tax**

12           **1. Rate.** A tax is imposed for each taxable year beginning  
13           on or after January 1, 1996 on the Maine taxable income of every  
14           resident and nonresident individual of this State. The amount of  
15           tax is equal to 34% of the taxpayer's federal tax liability.

16           **2. Adjustments.** In any year in which the federal tax laws  
17           would result in a different federal tax liability than would have  
18           resulted under the laws in effect on January 1, 1996, the State  
19           Tax Assessor may recommend to the joint standing committee of the  
20           Legislature having jurisdiction over taxation matters an  
21           adjustment to the percentage in subsection 1 so that the total  
22           amount of tax collected under this section does not exceed the  
23           amount that would have been collected if the laws of the United  
24           States for that year were the same as on January 1, 1996.

26           **Sec. 3. 36 MRSA §5111-A**, as repealed and replaced by PL 1987,  
27           c. 819, §3, is repealed.

30           **Sec. 4. 36 MRSA §5113**, as repealed and replaced by PL 1983,  
31           c. 571, §19, is repealed.

32           **Sec. 5. 36 MRSA §5122, sub-§1, ¶A**, as corrected by RR 1991, c.  
33           2, §136, is amended to read:

36           A. Interest or dividends on obligations or securities of  
37           any state or of a political subdivision or authority of any  
38           state other than this State and its political subdivisions  
39           and authorities; and

40           **Sec. 6. 36 MRSA §5122, sub-§1, ¶B**, as amended by PL 1981, c.  
41           706, §33, is further amended to read:

44           B. Interest or dividends on obligations of any authority,  
45           commission, instrumentality, territory or possession of the  
46           United States which that by the laws of the United States

are exempt from federal income tax but not from state income tax~~+~~.

**Sec. 7. 36 MRSA §5122, sub-§1, ¶D,** as amended by PL 1983, c. 855, §15, is repealed.

**Sec. 8. 36 MRSA §5122, sub-§1, ¶E,** as amended by PL 1987, c. 739, §§44 and 48, is repealed.

**Sec. 9. 36 MRSA §5122, sub-§1, ¶F,** as corrected by RR 1991, c. 2, §137, is repealed.

**Sec. 10. 36 MRSA §5122, sub-§1, ¶G,** as corrected by RR 1991, c. 2, §138, is repealed.

**Sec. 11. 36 MRSA §5122, sub-§1, ¶H,** as amended by PL 1991, c. 591, Pt. N, §5 and affected by §6, is repealed.

**Sec. 12. 36 MRSA §5122, sub-§2, ¶A,** as repealed and replaced by PL 1985, c. 737, Pt. A, §102, is amended to read:

A. Interest or dividends on obligations of the United States and its territories and possessions or of any authority, commission or instrumentality of the United States or on a seller-sponsored loan, as defined by Title 10, chapter 110, to the extent includable in gross income for federal income tax purposes, but exempt from state income taxes under the laws of the United States, provided that the amount subtracted ~~shall--be~~ is decreased by any expenses incurred in the production of the interest or dividend income to the extent that these expenses, including amortizable bond premiums, are deductible in determining federal adjusted gross income~~+~~.

**Sec. 13. 36 MRSA §5122, sub-§2, ¶B,** as repealed and replaced by PL 1985, c. 506, Pt. A, §78, is repealed.

**Sec. 14. 36 MRSA §5122, sub-§2, ¶C,** as repealed and replaced by PL 1989, c. 556, Pt. B, §7, is repealed.

**Sec. 15. 36 MRSA §5122, sub-§2, ¶D,** as amended by PL 1989, c. 556, Pt. B, §8, is repealed.

**Sec. 16. 36 MRSA §5122, sub-§2, ¶E,** as repealed and replaced by PL 1989, c. 880, Pt. G, §2, is repealed.

**Sec. 17. 36 MRSA §5122, sub-§2, ¶F,** as repealed and replaced by PL 1989, c. 880, Pt. G, §3, is repealed.

2       **Sec. 18. 36 MRSA §5122, sub-§2, ¶G,** as enacted by PL 1989, c.  
880, Pt. G, §4, is repealed.

4       **Sec. 19. 36 MRSA §5122, sub-§2, ¶H,** as amended by PL 1991, c.  
591, Pt. N, §7 and affected by §8, is repealed.

6       **Sec. 20. 36 MRSA §5124-A,** as affected by PL 1989, c. 596, Pt.  
8 J, §7, is repealed.

10       **Sec. 21. 36 MRSA §5125,** as repealed and replaced by PL 1987,  
c. 819, §7, is repealed.

12       **Sec. 22. 36 MRSA §5126,** as repealed and replaced by PL 1989,  
14 c. 878, Pt. D, §12, is repealed.

16       **Sec. 23. 36 MRSA §5224-A,** as amended by PL 1989, c. 596, Pt.  
18 J, §5, is further amended to read:

20       **§5224-A. Return of part-year resident**

22       If an individual changes that individual's status as a  
24 resident individual or nonresident individual during the taxable  
year, the individual shall file a nonresident return pursuant to  
section 5220, subsection 2. That individual's tax ~~shall-be~~ is  
26 computed, pursuant to section 5111, ~~subsection-4,~~ as if that  
individual were a nonresident individual, except that the  
numerator of the apportionment ratio ~~shall-be~~ is comprised of the  
28 individual's Maine adjusted gross income, as defined in section  
5102, subsection 1-C, paragraph A, for the portion of the taxable  
year during which that individual was a resident, plus that  
30 individual's Maine adjusted gross income, as defined in section  
5102, subsection 1-C, paragraph B, for the portion of the taxable  
32 year during which that individual was a nonresident. The  
part-year resident ~~shall~~ is also be entitled to the credit  
34 provided by section 5217-A, computed as if the individual's Maine  
adjusted gross income for the entire year were comprised only of  
36 that portion ~~which that~~ that is attributed to the portion of the year  
38 during which that individual was a resident.

40       **Sec. 24. 36 MRSA §5250, sub-§2, ¶A,** as enacted by P&SL 1969,  
c. 154, §F, is amended to read:

42       A. An employee ~~shall-be~~ is entitled to the same number of  
44 withholding exemptions as the number of withholding  
exemptions to which ~~he~~ that employee is entitled for federal  
46 income tax withholding purposes. An employer may rely upon  
the number of federal withholding exemptions claimed by the  
48 employee, except where the employee claims a different  
number of withholding exemptions in this State.

2           **Sec. 25. 36 MRSA §5250, sub-§2, ¶B,** as amended by PL 1989, c.  
596, Pt. J, §7, is repealed.

4           **Sec. 26. 36 MRSA §5256, sub-§2,** as amended by PL 1989, c. 596,  
Pt. J, §6, is further amended to read:

6  
8           **2. Change of taxable year.** If a taxpayer's taxable year is  
changed for federal income tax purposes, the taxable year for  
10 purposes of the tax imposed by this Part ~~shall~~ must be similarly  
changed. The income tax for a period of less than 12 months  
12 resulting from a change in accounting period is computed by first  
determining the taxable income for the period. That taxable  
14 income is then multiplied by 12 and divided by the number of  
months in the period of less than 12 months. A tax is computed  
16 on the resulting taxable income. The tax is then divided by 12  
and multiplied by the number of months in the period of less than  
12 months. The result is the tax liability before credits.  
18 Itemized deductions for the period of less than 12 months ~~shall~~  
must be ~~reduced--as--provided--in--section--5125,--subsection--3,~~  
20 ~~paragraph--A,--subparagraph--(3)~~ the amount allowable for  
determining federal income tax, except that the amount  
22 established by the Code, Section 63(c) ~~shall~~ must be divided by  
12 and multiplied by the number of months in the period of less  
24 than 12 months. Standard deduction and personal exemption  
amounts ~~shall~~ must be divided by 12 and multiplied by the number  
26 of months in the period of less than 12 months.

28           **Sec. 27. 36 MRSA §5275, sub-§2,** as amended by PL 1979, c. 378,  
§44, is further amended to read:

30  
32           **2. An amount greater than shown deductions.** As the amount  
of the itemized deductions ~~referred-to-in-section-5125~~ allowable  
34 for determining federal income tax shown on the return for any  
taxable year an amount greater than ~~sueh~~ those deductions  
36 ~~actually shown, he~~ the individual will pay a penalty of \$50 for  
~~sueh~~ that statement, unless:

38           A. ~~Sueh~~ The statement did not result in a decrease in the  
amounts deducted and withheld; ~~or~~

40  
42           B. The taxes imposed with respect to the individual under  
this Part for the succeeding taxable year do not exceed the  
44 sum of the payments of estimated tax ~~whieh~~ that are  
considered payments on account of ~~sueh~~ those taxes.

46           **Sec. 28. 36 MRSA §5403,** as amended by PL 1991, c. 591, Pt.  
CCC, is repealed.

48           **Sec. 29. Application.** This Act applies to any tax year  
50 beginning on or after January 1, 1996.

2           **Sec. 30. Review by State Tax Assessor.** The State Tax Assessor  
3 shall review the Maine Revised Statutes, Title 36, Part 8 to  
4 ensure compliance with the changes contained in this Act. The  
5 State Tax Assessor shall report the findings together with any  
6 necessary implementing legislation to the Second Regular Session  
7 of the 117th Legislature by December 1, 1995.

8  
9  
10  
11                                   **STATEMENT OF FACT**

12           This bill eliminates the current system of individual income  
13 tax collections and replaces it with a percentage of federal tax  
14 liability, a method similar to that used in the states of Vermont  
15 and Rhode Island.  
16