

This is Our Last Print Issue

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3rd Quarter 2009

June 2009 Maine Tax Reform Impacts Income Tax and Sales Tax Most Changes are Effective in Tax Year 2010

What's the difference between a Snickers® candy bar and a Twix® candy bar? Under the new Maine Tax Reform Law, Snickers will be taxed at a higher 8.5% candy rate; but Twix will remain taxed at 7%. (Hint: it has to do with the flour content of each candy.)

Here's another fascinating Maine Tax Reform Law fact: The graduated income tax rates have been replaced with a single income tax rate for everyone ... and many individuals may benefit. That is, unless they qualify for certain tax surcharges.

If these facts seem puzzling to you, you'll want to read this issue of ReveNEWS. We're providing clarity on the main aspects of the Maine Revenue Services Tax Reform (LD 1495) signed into law by Governor Baldacci on June 12, 2009. Most of the following changes go into effect in 2010.

The facts come from the Maine Revenue Services website (<http://www.state.me.us/revenue/taxrelief/taxreformtnr.htm>); and other comments come from us.

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Ideas to help small businesses and individuals
maximize income while minimizing taxes.

We invite you to share this issue with family members, friends, colleagues and employees to help them make sense of the changes. If you have any questions about how these tax changes will affect your income, personal finances, or small business, give us a call at any time.

INCOME TAX CHANGES

Lower income individuals should be paying a whole lot less in taxes starting in 2010. But every individual situation is different, and surcharges may influence the final numbers as a result. Here are several highlights of the new law:

How income tax rates will change

- The four current tax rates (2%, 4.5%, 7%, and 8.5%) are replaced with a simple tax rate of 6.5% of Maine taxable income. The 6.5% tax rate, but not the surcharge, will also apply to the Maine fiduciary income tax on taxable trusts and estates.
- 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.

We created this chart to provide a few general scenarios of how these changes affect personal income taxes for a few income levels. You can do your own analysis online at www.state.me.us/revenue/incomeestate/taxcalculator.xls. ►

Maine Revenue Services Old and New Tax Law Comparison (effective in Tax Year 2010)						
	Annual Tax Amount for Married Filing Joint (Under 65) 2 Exemptions			Annual Tax Amount for Single (Under 65) 1 Exemption		
	Old Law	New Law	Savings	Old Law	New Law	Savings
\$200,000 income with \$20,000 itemized deductions	\$13,482	\$12,775	\$707	\$14,149	\$13,000	\$1,149
\$100,000 income with \$10,000 itemized deductions	\$5,832	\$5,325	\$507	\$6,742	\$6,388	\$354
\$50,000 income with \$10,000 itemized deductions	\$1,660	\$1,400	\$260	\$2,249	\$2,138	\$111
\$25,000 income with standard deduction	\$196	-\$70	\$266	\$582	\$425	\$157

Maine Standard and Itemized Deductions and Personal Exemptions have been repealed and replaced with tax credits:

- **Refundable household credit (resident individuals only):**
 - The base credit amount is:
 - \$700 for **single** tax return filers, phased out by \$1.50 for every \$100 that their Maine taxable income exceeds \$27,500;
 - \$600 for **married, but filing separate (MS)** filers, phased out by \$1.50 for every \$100 that their Maine taxable income exceeds \$41,250. (This may change to \$27,500 since it appears inconsistent with the other rules.)
 - \$1,050 for **head of household (HH)** filers, phased out by \$1.50 for every \$100 that their Maine taxable income exceeds \$41,250
 - \$1,200 for **married joint (MJ)** filers, phased out by \$1.50 for every \$100 that their Maine taxable income exceeds \$55,000
 - The base credit amount is increased by \$250 for each exemption allowed to be claimed on federal income tax returns. This will replace the personal exemption and is added to the allowed base credit.
 - The credit is refundable up to \$70 for MJ returns and \$50 for all other returns
- **Alternative refundable household credit (resident individuals only):**
 - A taxpayer who has federal itemized deductions may elect to use this credit instead of the regular household credit outlined above.
 - The base credit amount for the alternative household credit is 5.5% of adjusted federal itemized deductions plus*:
 - \$400 for **single** filers, phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500
 - \$600 for **MS** filers, phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$27,500
 - \$600 for **HH** filers, phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$41,250
 - \$800 for **MJ** filers, phased out by \$1.50 for every \$100 that Maine taxable income exceeds \$55,000
 - The maximum base credit amount allowed is
 - \$1,150 for **single** filers
 - \$1,150 for **MS** filers
 - \$1,750 for **HH** filers
 - \$2,300 for **MJ** filers
 - The base credit is increased by \$250 for each exemption claimed
 - The credit is refundable up to \$70 for MJ returns and \$50 for all other returns.

* The adjusted federal itemized deductions amount is calculated using Maine Form 1040ME, Schedule 2 adjustments.

Other new income tax 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
 - \$48,000 for **HH** filers
 - \$52,000 for **MJ** 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.
- The additional tax on early distributions from qualified retirement plans is repealed.

Tax Credits Repealed

- The retirement and disability credit is repealed.
- The low-income tax credit is repealed.

SALES TAX CHANGES

Here's a condensed list of main categories affected by the law. You can read the entire list at <http://www.state.me.us/revenue/taxrelief/taxreformtnr.htm>. For what it's worth, we noticed that many of the sales tax increases are on items and services used by tourists who feed the Maine economy by spending their vacation and recreation money with local Maine businesses ... as you'll see below.

Short-term auto rentals (less than 12 months):

Effective October 1, 2009, the sales tax increases from 10% to 12.5%.

Airport taxis and limos

Effective January 1, 2010, a \$1 fee per passenger will be imposed on taxicab and limousine operators for each conveyance originating from or terminating at a commercial airport.

Amusement, entertainment and recreation services

Effective January 1, 2010, sales tax will apply to:

- Admission fees to entertainment venues and performances: theaters, movies, lectures, concerts, festivals, amusement parks, water parks, fairgrounds, miniature golf courses, billiard parlors, go-cart courses, paintball ▶



◀ MAINE TAX REFORM ...continued from page 2

- Admission fees charged for exhibition shows: auto, boat, camping, home, garden, animal and antique shows
- Fees charged for scenic and sight-seeing excursions: aircraft, helicopter, balloon, blimp, watercraft, railroad, bus, trolley and wagon rides, whitewater rafting and guided recreation, but excluding scenic and sight-seeing excursions on federally navigable waters
- Entertainment services such as those provided by bands, orchestras, disc jockeys, comedians, clowns, jugglers, children's entertainers and ventriloquists.

This DOES NOT include:

- Fees for admission to licensed agricultural fairs, race tracks, carnivals, circuses, sports activities, stadiums, amphitheaters, museums, planetariums, animal parks, aquariums, historical sites and convention centers
- Charges for participation in any events or activities occurring at the fair, amusement or event organized by a school or incorporated nonprofit organization if all the proceeds from the event or activity are used for the charitable purposes of the school or organization; and also those operated by a governmental entity
- Fees charged by health clubs and fitness centers
- Fees charged for lessons or training in dance, music, theater, arts and gymnastics, martial arts and other athletic pursuits

Transportation and courier services

A sales tax will apply to in-state transportation of persons or property by limousine (livery service hired for a specific event) and courier services.

Liquor served on-premises:

Effective January 1, 2010, the sales tax increases from 7% to 8.5%. Store sales of beer, wine and liquor remain at 5%.

Rentals of living quarters:

Effective January 1, 2010, the sales tax increases from 7% to 8.5%. Rentals at campgrounds remain at 7%.

Prepared food (including candy and soft drinks):

Effective January 1, 2010, the sales tax increases from 7% to 8.5%. We created the charts below to explain which candy and nonalcoholic beverages qualify for the higher sales tax.

Candy at higher 8.5% sales tax rate		Candy remaining at 7% sales tax rate
<i>No flour:</i>	Cake decorations	<i>Contains flour:</i>
Fruit roll-ups	Caramel corn	Twix®
Marshmallows	Caramel apples	Kit Kat®
Chocolate chips	Trail mix containing candy	Any other candy containing flour

Certain beverages (soft drinks) will be taxed at 8.5%. A soft drink is defined as "any nonalcoholic beverage that contains natural or artificial sweeteners."

Beverages at the higher 8.5% sales tax rate	Beverages remaining at 7% sales tax rate
<ul style="list-style-type: none"> • Carbonated soda: Coke, Pepsi, ginger ale • Beverages containing less than 51% vegetable or fruit juice: Gatorade, fruit punch drinks, juice drinks/cocktails 	<ul style="list-style-type: none"> • Any beverage that contains milk or milk products • Flavored or unflavored soy milk, rice milk, almond milk, grain milk and similar milk substitutes • Drinks with greater than 50% of vegetable or fruit juice by volume

All candy will be taxed at 8.5%. NOTE: Candy is defined as "a preparation of sugar, honey or other natural or artificial sweeteners in combination with chocolate, fruits, nuts or other ingredients or flavorings in the form of bars, drops or pieces and that does not contain flour or require refrigeration."

Rentals and leases of tangible personal property

Effective April 1, 2010, these items will be subject to the 5% sales tax: daily rentals of small tools, party equipment, tuxedos, gowns, tables, chairs, tents, golf clubs, bowling shoes, ski equipment, heavy equipment, lawn and garden equipment, moving vans/trucks, office equipment, etc.

Long-term leases entered into prior to April 1, 2010 are not affected. Renewals or extensions of these leases would become taxable under this new taxation.

Meals served at retirement facilities

Effective January 1, 2010, these are exempt from sales taxes.

Residential interstate and international telecommunications services:

Effective January 1, 2010, sales tax will apply.

Installation, repair and maintenance services:

Effective January 1, 2010, sales tax will apply on services to:

- Jewelry
- Cameras
- Guns
- Musical instruments
- Electronic & mechanical equipment
- Lawn & garden equipment
- Computer hardware & office equipment
- Vehicles & appliances
- Tailoring
- Clothing & shoe repair
- Furniture repair & restoration

(This also means service and maintenance contracts for any of the above listed items) ►

IT DOES NOT apply to services performed on computer software, special mobile equipment, aircraft, watercraft, truck or truck tractor registered in the name of a business as a commercial motor vehicle.

Personal property services

Effective January 1, 2010, sales tax will apply to:

- Dry cleaning
- Laundry & diaper services (not including self-service laundry)
- Embroidery & monogramming
- Car washing
- Pressure cleaning & washing
- Pet services such as exercising, sitting, training & boarding for nonmedical purposes
- Picture framing
- Domestic services, including house cleaning & furniture & rug cleaning
- Interior decoration
- Meal preparation
- Butchering
- Art restoration
- Warehousing & storage, including rental of storage units & warehouse space, but not including warehousing & storage services provided to a business
- Moving services
- Vehicle towing
- Boat mooring

NOTE: Effective January 1, 2010, any nonprofit organization currently holding a sales tax exemption certificate will no longer be able to purchase prepared food, rentals of living quarters or short-term rentals of automobiles free of sales tax.

Please call us if you have questions about how these changes will affect your personal or small-business finances. We're happy to assist you. ■



Chad Weber, Financial Advisor
Morgan Stanley Smith Barney

Chad is a busy man these days. As a team member of The Casco Bay Group at Morgan Stanley Smith Barney, he's called upon daily to help his clients conduct a checkup of their estates and understand the effects of market movements on their long-term financial health and ability to meet goals. Therefore, not only does he help clients manage their financial plans in these uncertain times, he serves as a calming force for them. Chad is a member of the Maine Bar with a background in estate planning, and is the primary financial planner on the team (he's been with the firm since 2001). So why do people refer to him as "Dr." Weber? Because Chad follows this philosophy: "Financial planning really should be thought of like a visit to the doctor. Every year, you should get an update on your blood pressure, cholesterol, etc. Similarly, there's a need to update plans to adjust for changes in expectations and events, and that's what I do." Due to the events of the past year, Chad has been helping people understand the need for up-to-date plans, the need for monitoring inflation, how to take advantage of opportunities in the market and how to keep track of their often complicated lives. His team's website offers reports on these topics and more: <http://fa.smithbarney.com/cascobaygroupsb>

Jane Honeck's New Blog is Live!

The problem with money?
it's not about the money!

Based on the philosophy that money doesn't have to be a dry, boring topic, Jane's mission is to help you enjoy a healthy relationship with money through her entertaining and enlightening blog posts. "The truth is, the problem with money is not about the money," said Jane. "It's about the beliefs and values that drive the way people deal with money. And people are never boring!" You won't be bored with Jane's posts. Visit www.theproblemwithmoney.com.



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