



MAINE TAX ALERT

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Overview of the 2010 Filing Season

Maine Revenue Services (MRS) has experienced a record year for tax return processing, particularly that of individual income tax. Improved, quicker processing is attributable to the availability of electronic filing systems, filing mandates, and well-trained staff. Faster processing of individual income tax returns has directly resulted in 15% fewer taxpayer assistance calls to the Income/Estate Tax Division, freeing up staff time to process returns and issue refunds more quickly.

2009 Paper Individual Income Tax Returns filed by April 15

- There was no backlog of unprocessed individual income tax paper returns this year until April 13th. In previous years, it was typical to have a backlog of timely filed individual income tax returns from the middle of January through the end of June.
- Individual income tax returns with payments were processed by April 21, 2010, 2 days earlier than last year.
- Individual income tax returns with refund requests were processed by April 26, 2010, nearly a week earlier than last year.
- 61% of individual income tax refund returns processed through April 26, 2010 requested direct deposit of refunds (requires no processing or mailing of a paper check) – increased from 48% last year.

Electronic Returns

Electronic filing with Maine Revenue Services has increased on all fronts. The E-file and payment mandates require many Maine tax preparers to file returns electronically and certain taxpayers to pay electronically. Since its inception, in 2007, MRS has strategically phased-in the mandates. Many other taxpayers participate in the DDR program although not required to do so, allowing their tax refunds to be directly deposited into an account of their choice. Electronic filing statistics are as follows:

- 67% of 2009 individual income tax returns were filed electronically (through April 26, 2010) – increased from 63% last year.
- 44% of 2009 Maine Residents Property Tax and Rent Refund “Circuitbreaker” Program applications were filed electronically – increased from 40% last year.
- 65% of 2010 withholding returns were filed electronically – increased from 57% last year.
- 76% of 2010 sales tax returns were filed electronically – increased from 57% last year.

Electronic payments January through April totaled \$2B – 72% of the state’s fiscal year 2009-10 revenue.

MRS – Maine Integrated Tax System (MERITS)

Maine Revenue Services (MRS) recently completed the successful modernization of the Maine Revenue Integrated Tax System (MERITS). The revised, web-based windows system positions MRS for the future by providing the flexibility to adapt to future changes in technology while retaining all the existing business capabilities, including the various system enhancements implemented over the years.

Modernized e-File (MeF)

Maine Revenue Services (MRS) is transitioning to the IRS’s Modernized e-File (MeF) platform and plans to be ready to process a number of 2010 individual income tax returns through the new program sometime during the 2011 filing season. To help facilitate the transition, the existing MRS e-file program will also be available for processing individual income tax returns. MRS also plans to be ready to receive 2010 Corporate and Partnership returns through the MeF platform during the 2011 filing season.

The MeF platform is web-based and utilizes a modern, scalable architecture that enables real-time processing. Vendor submissions are received by the IRS, processed, and made available to the states continuously on a submission by submission basis.

MRS has experienced rapid growth in electronic tax return filings. It has received, to date, over 344,000 individual income tax returns directly from vendors for the 2009 tax year through its independent e-File system. The transition to MeF positions MRS for continuing growth in electronic return processing.

Maine Revenue Services to Replace Image Processing System

MRS has initiated an effort to replace its aging Maine Image Processing System (MIPS). The project, referred to as the Tax and Revenue Image Processing System (TRIPS) includes upgrading mail processing, scanning, imaging and data entry system products and services.

TRIPS objectives are to ensure that MRS data processing technology remains current and reliable into the next decade; to provide additional functionality that will improve productivity and, therefore, taxpayer satisfaction with quicker processing and faster resolution of taxpayer issues; and to improve audit performance with more readily accessible data. TRIPS is expected to be fully operational in approximately 12 months.

Data Warehouse Collection Initiative

Maine Revenue Services (MRS) has selected Revenue Solutions, Inc. (RSI) and DiscoverTax® for its Data Warehouse Collection Initiative (DWCI). This initiative will provide for the generation of increased tax revenue from tax debtors based on a fully-integrated data warehouse utilizing advanced data mining techniques, statistical selection and scoring, automated assessment technology and improved business intelligence capabilities.

Data sources include information provided by taxpayers on tax returns, data supplied by State agencies and the U.S. government (such as the Internal Revenue Service), and information from other external sources.

Maine Estate Tax QTIP in 2010

Recently a tax practitioner posed a question to MRS relating to the Maine qualified terminable interest property (“QTIP”) election for 2010 decedent estates. The Maine QTIP election allows decedents with surviving spouses to take advantage of the full federal exclusion for both husband and wife, while postponing the Maine estate tax on a portion of the first decedent’s estate until the death of that decedent’s spouse. The maximum allowable amount of the Maine QTIP election is the difference between the federal and Maine exclusions.

Because Congress has not passed a law providing for the continuation of the federal estate tax, the federal estate tax has been repealed as scheduled under the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”). Therefore, estates of individuals who die in 2010 are currently not subject to federal estate tax. Maine’s estate tax, however, remains and is calculated as if a 2010 decedent died in 2009.

Despite the fact that there is currently no federal estate tax, and, therefore, no federal exclusion, Maine law continues to allow a Maine QTIP for 2010 decedents. Maine estate tax law provides that “[n]otwithstanding any other provision of this Title to the contrary, the tax determined under this chapter for estates of decedents dying after December 31, 2009 must be determined in accordance with the law applicable to decedents dying during calendar year 2009” 36 MRSA 4062(1-A)(A).

Thus, the maximum allowable amount for a 2010 Maine QTIP election is \$2.5 million, the difference between the federal and Maine exclusion amounts for 2009. In addition, property included in the Maine QTIP election must meet the qualifications of federal QTIP property under the law as in effect in 2009.

Maine Revenue Services Criminal Tax Cases

Naples Man Sentenced to 45 Days in Jail for Falsifying Tax Returns

Portland - Michael A. Skarbinski, age 49, of Naples, Maine, was sentenced on April 27, 2010, by Justice Roland Beaudoin in Cumberland County Superior Court to 12 months in jail with all but 45 days suspended and two years probation for making false statements in his tax returns and obtaining a tax refund through deception. Skarbinski was convicted of: Felony Theft by Deception, Misdemeanor Attempted Theft by Deception, and Misdemeanor Making and Subscribing False Statements in Maine income tax returns; this conviction followed a jury trial on March 10 and 11, 2010.

The jury found Skarbinski falsified his 2005 (amended) through 2007 Maine State income tax returns by claiming he and his wife, who together made between over \$80,000 and \$130,000 per year, had zero federal and state taxable income. Skarbinski contended at trial that the salaries he and his wife earned as professionals at local area hospitals were not taxable under federal and state law. Skarbinski therefore felt justified in applying for Maine State income tax refunds for taxes withheld from the couples' pay. Skarbinski was successful in receiving a refund for tax year 2007 for nearly \$4,000. The other two attempts at refunds were detected and denied by Maine Revenue Services. Skarbinski argued that he did not falsify his Maine State income tax returns despite the State showing at trial that he knowingly filled out his returns incorrectly, failed to include their W2 forms which showed their taxable income, and included an additional form in an effort to hide the couples' income. He also argued he did not steal from the State. The jury disagreed with Skarbinski.

In addition to the jail sentence, Skarbinski is ordered to repay the \$3780 refund he was successful in stealing and will file his amended tax returns so that he pays all of the required taxes. Skarbinski is also ordered to file complete and correct tax returns for 2008 and 2009 and file all future tax returns timely.

"Tax cheats will not be tolerated," stated Attorney General Mills. "My office will take strong action against individuals who misrepresent their income and force other Maine citizens to make up the difference. Especially during these hard economic times, when other citizens are struggling to get by but paying their taxes, we will not stand for this kind of crime."

This case was investigated by Maine Revenue Services' Criminal Investigations Unit and prosecuted by the Attorney General's Office by Assistant Attorney General Gregg D. Bernstein.

Orono Attorney Sentenced for Failing to File Income Tax Returns

Bangor—Michael McAleer, age 57, of Orono was sentenced to a suspended jail term after his plea of no contest on April 13, 2010 in Penobscot County Superior Court to criminal charges of failing to file Maine state income tax returns for 2003 through 2007. McAleer is a former law partner of the law firm Rudman & Winchell, located in Bangor, Maine.

Justice William Anderson sentenced McAleer to six months of jail, all suspended, and one year of probation followed by a consecutive sentence of six months in jail, all suspended, and one

year of probation, and a combination of suspended sentences for remaining counts. In addition, McAleer will be required to pay tax due and file his 2007 and still unfiled 2008 Maine state income tax return. He also will be required to file his future tax returns on time while on probation.

The charges were filed in August of 2009. As of the date of sentencing, McAleer had not yet filed his 2007 or 2008 Maine state income tax returns. There was no plea agreement in this case.

Attorney General Mills commented, "In these difficult economic times, it is even more important that all Maine citizens follow the tax laws so that everyone pays their fair share. My office will take strong action against individuals who fail to comply with the tax laws and force other Maine citizens to make up the difference."

This case was investigated by Maine Revenue Services' Criminal Investigations Unit and prosecuted by the Attorney General's Office by Assistant Attorney General Gregg D. Bernstein.

<u>Department</u>	<u>Telephone Numbers</u>	<u>FAX Numbers</u>	<u>E-mail Addresses</u>
Taxpayer Service Center	(207) 287-2076	(207) 287-5855	
Appellate	(207) 624-9854	(207) 287-3618	
Central Registration	(207) 621-5129	(207) 287-3733	division.uctax@maine.gov
Collections & Compliance	(207) 624-9595	(207) 287-6627	compliance.tax@maine.gov
Corporate Tax	(207) 624-9670	(207) 624-9694	corporate.tax@maine.gov
Economic Research	(207) 624-9789	(207) 287-3618	
E-file Help Desk (1040 ONLY)	(207) 624-9730	(207) 287-6628	efile.helpdesk@maine.gov
Electronic Funds Transfer	(207) 287-8276	(207) 287-6975	efunds.transfer@maine.gov
Estate Tax	(207) 626-8480	(207) 624-9694	estatetax@maine.gov
Fuel Tax	(207) 624-9609	(207) 287-6628	fuel.tax@maine.gov
Forms Request Line	(207) 624-7894		
Income Tax Assistance	(207) 626-8475	(207) 624-9694	income.tax@maine.gov
Insurance Premium Tax	(207) 624-9753	(207) 624-7729	
NexTalk (TTY Service)	(888) 577-6690		
Payment Plan/Income Tax	(207) 621-4300	(207) 621-4328	compliance.tax@maine.gov
Payment Plan/Other	(207) 624-9595	(207) 287-6627	compliance.tax@maine.gov
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2013	(207) 287-6396	prop.tax@maine.gov
Public Communications	(207) 626-8478	(207) 624-9694	
Sales Tax	(207) 624-9693	(207) 287-6628	sales.tax@maine.gov
Tax Clearance Letters	(207) 624-9628	(207) 287-6627	
Taxpayer Advocate	(207) 624-9649	(207) 287-3618	taxpayer.advocate@maine.gov
Withholding Tax	(207) 626-8475	(207) 624-9694	withholding.tax@maine.gov
Tax Violations Hot Line	(207) 624-9600		

This publication is designed to keep taxpayers, tax practitioners and the general public informed of developments, problems, questions and matters of general interest concerning Maine tax law, policy and procedure. The articles in this newsletter are not designed to address complex issues in detail, and they are not a substitute for Maine tax laws and/or regulations.

STATE OF MAINE

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Suggestions for the Tax Alert?

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