



# MAINE TAX ALERT

A Publication of Maine Revenue Services for Tax Professionals

Volume 11, No. 1

June 2001

Public Communications Tel: (207) 287-6838

## MRS Restructures Audit Functions

In October 2000, Maine Revenue Services (MRS) recognized the advantage of combining administrative and audit functions to improve overall communication and efficiencies. The Sales/Excise Tax Division and Audit Division were reorganized to blend both compliance education and compliance auditing. The organizational restructuring between the administrative and audit functions ensures clarity in purpose, clarity in communication, quality taxpayer service and timely and consistent decisions.

The Sales, Fuel and Special Tax Division, under the direction of Peter Beaulieu, not only services sales and use tax, but also Gasoline, Special Fuel, Cigarette, Tobacco Products, Railroad, Potato, Blueberry and Mahogany Quahog taxes. One of the main goals of the restructuring was to improve taxpayer education. We would like to highlight two of our recent successes.

In the administrative area, we found that when a new retailer registers with MRS to collect sales tax, little information was forwarded to them about sales and use tax and how it affects their business. To improve our educational effort of new retailers, a "New Taxpayer Portfolio" is now custom created for that retailer. The portfolio contains general information about sales and use tax, tax rate charts, internet filing instructions, "Your Rights as a Taxpayer", the most recent legislative changes concerning sales and use tax, the retailers seller's certificate and how to use it and how to use a resale certificate. But more importantly, our staff reviews what type of business this taxpayer conducts and includes specific information on that industry type such as instructional bulletins, special notices and frequently asked questions. This portfolio, which comes assembled in a pocketed folder, has been well accepted and provides the retailer with a convenient resource of information for future reference.

In the audit area, we found that when an audit is completed, the auditor discusses the results of the audit with the taxpayer and leaves copies of the work papers. We felt we could improve taxpayer education in this area by standardizing the audit package and provide the taxpayer with a written summary of the audit findings. This approach has already been used by some auditors and will become the standard for all audits beginning July 1, 2001. At the exit discussion, the taxpayer is presented with an "Audit Findings Report" which standardizes a written narrative of the auditor's findings along with the exhibits and schedules and organizes this information in a convenient binder. After the exit discussion, the auditor also sends the taxpayer a written summary of that discussion.

MRS is committed in providing excellent customer service and education. We hope that the above accomplishments, in addition to ongoing improvements, will foster compliance and a spirit of cooperation.

## **State Tax Administration in Maine: A Retrospective and a Tribute**

We would like to take this opportunity both to reflect on the changes that have occurred in state taxation in Maine over the years, and to recognize the late Ernest H. Johnson, former State Tax Assessor. Johnson, who died at his home in Monmouth on June 26, 2000 at the age of 90, made a profound and enduring contribution to Maine tax administration and his leadership is still an inspiration to those of us at Maine Revenue Services who were fortunate enough to know him.

Ernest Johnson was a graduate of Dartmouth College and Northeastern School of Law and a member of both the Maine and Massachusetts Bars. Following a stint as Town Manager in Stonington, he was appointed to the position of State Tax Assessor on September 1, 1947 at the age of 37. He remained at the helm of the Bureau of Taxation, as this agency was formerly known, for more than 27 years -- a record that has never been, and is unlikely to ever be, surpassed. He was widely respected for his intelligence, his wide knowledge of tax law, and the sense of fairness with which he went about the business of tax administration.

At the time of Johnson's appointment, the Bureau administered property taxation and various excise taxes such as tobacco, gasoline, railroad, insurance, etc. The duties of the Inheritance Tax Commissioner had just been transferred to the Assessor. The number of Bureau employees was approximately 50 and the tax collections (exclusive of unorganized territory property taxes) totaled \$14,000,000 for fiscal year 1947. Salaries for state employees were also slightly below current levels: Johnson was paid \$5,000 per year when he began his service with the Bureau.

The next three decades of Johnson's stewardship saw tremendous changes in the administrative expectations placed upon the Bureau. During his tenure, the State of Maine implemented two major new taxes, which today are the mainstays of our state budget. First, on July 1, 1951 a sales and use tax first became effective. (The rate: two percent) To accommodate administration of this significant new tax, the staff of the Bureau more than doubled, and by 1954, over 100 employees were devoted to state tax administration functions. With the imposition of the sales tax, in one fell swoop essentially everyone engaged in making retail purchases in this state had become taxpayers, Maine residents and visitors alike. The door was opened, probably never to be closed, and henceforth the clientele of the Bureau included all individuals in Maine involved in commercial or business activity as well as all property owners.

Second, the Maine Legislature decided to join the bandwagon of states following on the coattails of the federal government and passed an income tax law that was effective January 1969 for corporations and July 1, 1969 for individuals. The income tax was intended to meet the state's growing need for revenue and to generate such revenue in a fashion consistent with a taxpayer's ability to pay. Not surprisingly, by 1970 the number of Bureau employees had grown to 170. And by June 30, 1974, just prior to the transfer of property tax positions to the new Bureau of Property Tax, the authorized positions for the Bureau had increased to 198. By this time tax collections (exclusive of the unorganized territory property taxes) exceeded \$270,000,000 annually.

By the time Johnson retired as State Tax Assessor in 1974, the staff of the Bureau of Taxation had quadrupled, and non-property tax revenues had burgeoned by about twenty-fold from 1947. Johnson served longer in the position than any other three Assessors combined, and he left an unequalled legacy to state taxation in Maine. We remember Ernest Henry Johnson as the founding father of Maine state tax administration. His commitment and dedication to public service was and continues to be an inspiration to all of us.

## **Maine Revenue Services Proposes New Rule 810**

Maine Revenue Services has initiated formal rulemaking for a new Rule 810 to be entitled "Maine Unitary Business Taxable Income, Combined Reports and Tax Returns." The purpose of the rule is to establish standards for determining Maine income tax for unitary businesses and for filing combined reports and the related income tax returns.

The proposed Rule 810 provides guidance for computing "taxable income under the laws of the United States" in the case of a unitary business that is included in a larger group of affiliated corporations who filed a federal consolidated return, as well as in other situations involving a unitary business. It also provides guidance for computing state modifications, Maine net income, and Maine income tax. Also addressed are differing year-end dates, use of credits, single or separate returns, and allocation and use of net operating loss deductions.

A complete copy of the proposed rule is available on the MRS Web site or is available by mail. Comments, questions, and requests for copies of the replacement rule should be directed to David Bauer, General Counsel by mail at 24 State House Station, Augusta, Maine 04333 or by phone at (207) 624-9681. The comment deadline is July 13, 2001.

## **Supreme Court Rules in New Hampshire v. Maine**

The United States Supreme Court ruled on May 29 that Seavey Island and the Portsmouth Naval Shipyard are located in the State of Maine. In a unanimous 12-page opinion, the Court granted Maine's motion to dismiss the case, holding that New Hampshire had conceded in the course of prior litigation (a dispute over fishing rights during the 1970s) that the border between the states follows the middle of the Piscataqua River's main navigable channel. New Hampshire, the Court said, could not now argue to the contrary. This decision by highest court in the land effectively "closes the door" once and for all on the longstanding contention by certain employees of the Portsmouth Naval Shipyard that they cannot be subjected to Maine's individual income tax. The State of Maine was ably represented by Paul Stern of the Attorney General's office.

## **Latest Criminal Tax Cases Prosecuted by the Attorney General's Office**

Four individual criminal tax cases were recently resolved. A regional sales manager from Old Orchard Beach, a merchant seaman from Wiscasset, an employee of an energy systems company from East Waterboro and a fisherman from Bass Harbor were all prosecuted for Failure to Make and File Maine Income Tax Returns. Each individual received a jail sentence, fines and a court order to pay full restitution to the State. The amount of restitution was over \$129,028.00 in the four cases.

In the last twelve months the Criminal Investigation Unit of MRS successfully prosecuted 33 individuals with restitution of \$1,131,498.00.

And a friendly reminder: investigations and prosecutions of criminal state tax violations will continue apace regardless of the recent passing of April 17<sup>th</sup>.

**MAINE REVENUE SERVICES:** <http://janus.state.me.us/revenue>  
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**Suggestions for the Tax Alert?**  
 Please contact: **Public Communications**

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**

**Angus S. King, Governor**

**Janet E. Waldron, Commissioner  
 Administrative and Financial Services**

**Anthony J. Neves, Executive Director  
 Maine Revenue Services**

<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	
Central Registration	(207) 287-2338	(207) 287-3733	
Collections & Compliance	(207) 624-9595	(207) 287-6627	<a href="mailto:tax_compliance@state.me.us">tax_compliance@state.me.us</a>
Corporate Tax	(207) 624-9670	(207) 287-6627	<a href="mailto:corporate_tax@state.me.us">corporate_tax@state.me.us</a>
Electronic Funds Transfer	(207) 287-8276	(207) 287-6965	<a href="mailto:electronic_funds_transfer@state.me.us">electronic_funds_transfer@state.me.us</a>
Estate Tax	(207) 626-8480	(207) 624-9694	<a href="mailto:income_estate_tax@state.me.us">income_estate_tax@state.me.us</a>
Fuel Tax	(207) 624-9745	(207) 287-6628	<a href="mailto:sales_tax@state.me.us">sales_tax@state.me.us</a>
Forms Request Line	(207) 624-7894	(207) 622-3517	
Income Tax Assistance	(207) 626-8475	(207) 624-9694	<a href="mailto:income_estate_tax@state.me.us">income_estate_tax@state.me.us</a>
Insurance Premium Tax	(207) 624-9582	(207) 624-9694	
Paym't Plan/Income Tax	(207) 621-4300	(207) 621-4328	
Payment Plan/Other	(207) 624-9595	(207) 287-6627	
Practitioners' Hotline	(207) 626-8458	(207) 624-9694	
Property Tax	(207) 287-2011	(207) 287-6396	<a href="mailto:property_tax@state.me.us">property_tax@state.me.us</a>
Public Communications	(207) 287-6838	(207) 287-3618	
Sales Tax	(207) 287-2336	(207) 287-6628	<a href="mailto:sales_tax@state.me.us">sales_tax@state.me.us</a>
Taxpayer Advocate	(207) 624-9649	(207) 624-9694	<a href="mailto:abandoned_property@state.me.us">abandoned_property@state.me.us</a>
TTY Service	(207) 287-4477	-----	
Withholding Tax	(207) 626-8475	(207) 624-9694	<a href="mailto:withholding_tax@state.me.us">withholding_tax@state.me.us</a>

**MAINE TAX ALERT: June 2001**  
**Vol. 11 No. 1**  
**MAINE REVENUE SERVICES**  
**24 State House Station**  
**Augusta ME 04333-0024**  
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