

# MAINE STATE LEGISLATURE

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## **2003 Maine Tax Amnesty Program & Tax Enforcement Programs**

**A Report Prepared for the  
Taxation Committee and the  
Appropriations and Financial Affairs Committee**

**Department of Administrative and Financial Services  
Maine Revenue Services**

**September 2004**



JOHN ELIAS BALDACCI  
GOVERNOR

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**MAINE REVENUE SERVICES**

**REPORT TO THE**

**TAXATION AND THE APPROPRIATIONS AND FINANCIAL AFFAIRS**

**COMMITTEES**

**ON**

**THE 2003 MAINE TAX AMNESTY PROGRAM &**

**TAX ENFORCEMENT PROGRAMS**

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I am pleased to submit the attached reports on the 2003 Maine Tax Amnesty Program and on Maine Revenue Services' tax enforcement programs, as required by the 121st Legislature (PL 2003, c. 20, Part B). The amnesty program was concluded on November 30, 2003. The report presents data and information compiled during the Amnesty Program and after its conclusion. Like the prior Maine tax amnesty program, conducted in 1990, this program was a qualified success. Total collections met the revenue target set for the program, and most of the other objectives of the program were successfully met.

The ongoing Maine Revenue Services programs designed to address tax delinquency are strong continuing revenue generators, and are becoming even more effective with the additional resources that have been provided by the Legislature since the conclusion of the Amnesty Program.

September 16, 2004

Respectfully submitted,

A handwritten signature in cursive script, reading "Jerome D. Gerard".  
Jerome D. Gerard

# **THE 2003 MAINE TAX AMNESTY PROGRAM**

## **Executive Summary**

The 2003 Maine Tax Amnesty Program had a projected General Fund revenue collection goal of \$14 million. Gross Amnesty receipts totaled more than \$37 million. The value of the General Fund gross receipts are offset to some degree by contributions to the Local Government Fund, losses due to interest and penalty write-offs, money that would have been collected in the current and subsequent fiscal years regardless of the amnesty program, revenue lost from resource diverted to work on the amnesty effort, and other costs. In addition to the \$37 million collected there is a residual benefit of having new taxpayers on the tax rolls and allowing some delinquent taxpayers to become compliant may make it easier for them to stay in compliance.

Other conclusions based on the results of the Amnesty program:

- The Amnesty Program returned \$42 in receipts for every dollar spent in budgeted expenditure.
- Accounts Receivable decreased 11% during the period, from \$184.7 million to \$163.6 million.
- While significant revenue was generated during Amnesty, the compliance-based revenue fell off in the immediate post-Amnesty period.
- A large percentage of the Amnesty revenue was generated from out-of-state taxpayers.
- The public, tax practitioners and press all appeared to support the Amnesty Program.

## **Why Maine Conducted a Tax Amnesty Program**

The 2003 Maine Tax Amnesty Program authorized by the 121st Legislature was the first tax amnesty conducted in Maine since the 1990 amnesty program. The financial target for the 2003 program was \$14 million. The amnesty publicity campaign was scheduled to run for a three-month period, from September 1 through November 30, 2003. Several interrelated purposes of the program were:

- to encourage delinquent taxpayers to comply with the State's tax law;
- to enable the State Tax Assessor to identify and collect previously unreported taxes;
- to add new taxpayers to the tax rolls;
- to reduce existing accounts receivable;
- and of course to accelerate collection of delinquent tax liabilities.

The overriding long-term goal of the program was to improve voluntary taxpayer compliance with the tax laws of the state of Maine.

## **How the Tax Amnesty Program was Conducted**

Maine Revenue Services developed the framework and tools to conduct and implement an amnesty program during the early part of 2003. In early summer, MRS conducted an extensive RFP contract search for a marketing/public relations firm that would assist in developing a comprehensive public communications program. Warren Marketing Group of Portland, which handled the 1990 program, was again selected for the contract based upon its marketing and public relations experience, client recommendations, its cost proposal, and its proven ability to develop a marketing program within a reasonable period of time.

The strategies employed by both MRS senior management and by Warren Marketing in the Maine Tax Amnesty Program were to:

1. Utilize the extensive research that was employed during the earlier Amnesty, as well as that done by other states, in order to create the most effective campaign;
2. Review creative strategies and themes, modifying the previous amnesty campaign where necessary and using new promotional materials where appropriate;
3. Hold an introductory press conference to introduce the program and subsequently hold informational meetings statewide; conduct press/media interviews throughout the campaign; and keep media informed with regular press releases and briefings;
4. Prepare and distribute tax amnesty information and applications to tax practitioners, town halls, and public libraries across the State; and maintain an Amnesty Information Center for the public in Augusta;
5. Expand an existing MRS collection contract in order to provide support for a toll-free telephone line and act as a first reviewer for incoming applications and correspondence; and
6. Maximize the marketing budget with more efficient control of production costs. This would include use of free broadcast time on both statewide broadcast media and internet sites, targeted publicity both in Maine and out of state and use of newspaper ads for end-of-campaign "countdown" messages.

## The Results of the 2003 Maine Tax Amnesty Program

Total receipts collected under the Amnesty Program	\$37,625,745
Revenue sharing	\$1,840,624
Budgeted expenses	\$905,720
Net revenue to the General Fund	\$34,879,401
Dollars collected per dollar budgeted expenses	\$42
Dollars per tax type	
Individual Income Tax	\$15,650,183
Corporate Income Tax	\$8,474,364
Sales & Use Tax	\$10,701,018
Income Tax Withholding	\$1,264,686
Insurance Premiums Tax	\$1,225,808
Dollars Geographically	
In-State	\$21,448,790
Out-State	\$16,113,735
Out-Country/Unknown	\$63,220
Amnesty contribution to existing accounts receivable	\$18,518,036
Amnesty collections from previously unknown liabilities	\$19,107,709
Written Off Interest	\$7,674,116
Written Off Penalty	\$17,071,498
Amnesty Penalty Write Offs, with no payment required	\$371,510
Average Payment Amount	\$1,907

## **What We Have Learned**

We have drawn the following conclusions after study of the results of the 2003 Maine Tax Amnesty Program:

- 1) While Tax Amnesty was able to persuade many tax debtors and nonfilers to come forward during the campaign period, of even greater importance is the ongoing compliance effort of MRS. In the normal course of operations MRS generates revenue of \$75 million per year from compliance-based initiatives. There is a clear benefit to providing the State with strong ongoing compliance programs, although the incremental benefit of additional voluntary compliance going forward cannot be quantified precisely.
- 2) Even though the 2003 Amnesty program grossed over \$37 million in receipts, after consideration of offsetting costs and adjustments, we estimate the net General Fund revenue to be in the range of \$14 million. Some of the adjustments (such as revenue sharing and budgeted amnesty expenses) are known with certainty; other expenses, such as those associated with diverted resources or the amount and timing of amnesty receipts that would have occurred even without amnesty, cannot be quantified.
- 3) Nearly 43% of the revenue for the Amnesty Program came from entities based outside the state of Maine. Increased focus on these types of entities may be warranted.

## **Post-Amnesty**

At the same time that it authorized the 2003 Maine Tax Amnesty Program, the 121st Legislature provided resources to strengthen compliance efforts in the future:

1. Eleven new positions were created by the Legislature to assist in audit, nonfiler discovery, collections and enforced collections.
2. \$130,000 was provided to improve the MRS data warehouse facility. Over the past two years the warehouse has provided leads that generated \$2,600,000 in new revenue.
3. Positions were added to further strengthen the State's tax compliance efforts. 20 positions were added mainly to improve the Corporate and Individual Income Tax audit function as well as the Sales and Use Tax audit function.

## **Appendices**

1- Revenue Summary

2- Revenue by County and Out of State



## Appendix 1

### Revenue Summary

Tax Type	Revenue	%Contribution to Total	Major Lines Contribution
Individual Income	\$15,650,183.00	0.4159435	41.6
Sales & Use	\$10,701,018.00	0.2844068	28.4
Corporate Income	\$8,474,364.00	0.2252278	22.5
Withholding	\$1,264,686.00	0.0336123	3.4
Insurance	\$1,225,808.00	0.0325790	3.3
Estate	\$199,247.00	0.0052955	
Potato	\$36,723.00	0.0009760	
Fiduciary Income	\$22,784.00	0.0006055	
Fuel Taxes	\$16,785.00	0.0004461	
Tax & Rent	\$15,301.00	0.0004067	
Hospital	\$13,899.00	0.0003694	
Quahog	\$2,122.00	0.0000564	
Tobacco	\$2,013.00	0.0000535	
Bank Franchise	\$432.00	0.0000115	
Health Care Provider	\$202.00	0.0000053	
Blueberry	\$178.00	0.0000047	
Total	\$37,625,745.00	1.0000000	99.2

## Appendix 2

### Revenue by County and Out-of State

County	Revenue	% Contribution to Total	Major Location Contribution
Cumberland	\$7,256,570.00	0.19286183	19.3%
York	\$3,337,647.00	0.08870647	8.9%
Penobscot	\$1,754,709.00	0.04663586	4.7%
Hancock	\$1,582,476.00	0.04205833	4.2%
Kennebec	\$1,410,746.00	0.03749417	3.7%
Androscoggin	\$1,101,173.00	0.02926648	
Knox	\$980,141.00	0.02604974	
Lincoln	\$669,024.00	0.01778102	
Oxford	\$595,193.00	0.01581877	
Aroostook	\$560,464.00	0.01489576	
Sagadahoc	\$528,541.00	0.01404732	
Somerset	\$516,332.00	0.01372284	
Waldo	\$471,568.00	0.01253312	
Washington	\$287,286.00	0.00763536	
Franklin	\$267,209.00	0.00710176	
Piscataquis	\$129,711.00	0.00344740	
Out of State	\$16,113,735.00	0.42826355	42.8%
Unknown	\$63,220.00	0.00167760	
Total	\$37,625,745.00	0.99999737	83.6%

## **TAX ENFORCEMENT PROGRAMS**

Effective July 1, 2003, 11 new positions were created in Maine Revenue Services to enhance revenue generation in several areas. In the Income and Estate Tax Division two Senior Revenue Agents and one Revenue Agent were added to the Corporate Income Tax audit function and a Tax Examiner was added to the Withholding Unit to administer withholding on pass-through entities. One Tax Enforcement Officer was added to the Criminal Investigation Unit. Four Tax Examiners, one Senior Tax Examiner, and one Tax Section Manager were added to the Compliance Division to expand individual income tax non-filer detection, front-line telephone collections and enforced collections.

The 11 positions were created as limited-term positions with the end date scheduled to be June 30, 2005. The temporary nature of the positions made it difficult to recruit and retain qualified applicants, since potential candidates were reluctant to accept positions knowing that they would end within two years. Over the first year of the program, nine of the individuals who originally filled the positions transferred to other permanent positions at the same level. One other promoted to a higher position. Of the 132 months available for work during the first year of the program, positions were vacant for 46 of those months, or 35% of the time. Furthermore, the training curve associated with new employees further reduced productive work time. The Second Special Session of the 121st Legislature removed the limited term designation from the 11 positions, thus moving these positions into the ongoing resources dedicated to enforcing Maine tax law. With this change the inefficiencies associated with vacancy and turnover in limited time positions were eliminated.

The revenue goal for these positions for FY 2004 was \$4,950,000. This goal was met despite the high vacancy/turnover rate for these positions. Based on MRS computer accounting records gross revenue attributable to these positions was \$10,287,469. This amount was reduced by the \$524,661 paid to the Local Government Fund and budgeted expenses of \$832,099. The net revenue to the General Fund was \$8,930,709.

The additional gross revenue is broken down as follows:

Corporate Income Tax (3 positions)	\$2,758,333
Collections (4 positions)	2,960,084
Income Tax Non-filer (2 positions)	383,781
Criminal Investigations (1 position)	308,698
Pass-Through Entity WH (1 position)	<u>3,876,573</u>
Total	<u>\$10,287,469</u>

An indeterminate amount of the pass-through entity collections noted above would have been collected in any event when the individuals involved filed and paid their Maine income tax returns. Accordingly, some unknown further reduction should be reflected in the additional revenue.

The efforts of these employees engaged in compliance initiatives were enhanced by the fact that the 2003 Maine Tax Amnesty program was running during this same period. Many taxpayers were more willing to pay because of amnesty and many audits were completed very rapidly with help from the taxpayer. Thus, a significant part of the revenue tied to the compliance initiatives is also part of the amnesty program.

**APPLICATIONS  
HERE**

**MAINE  
TAX  
AMNESTY**

**Get To Us  
Before We  
Get To  
You**

**MAINE  
TAX  
AMNESTY  
APPLICATIONS  
AVAILABLE  
HERE**

**DEADLINE FOR AMNESTY:  
NOVEMBER 30, 2003**

toll-free **1-866-430-3161**

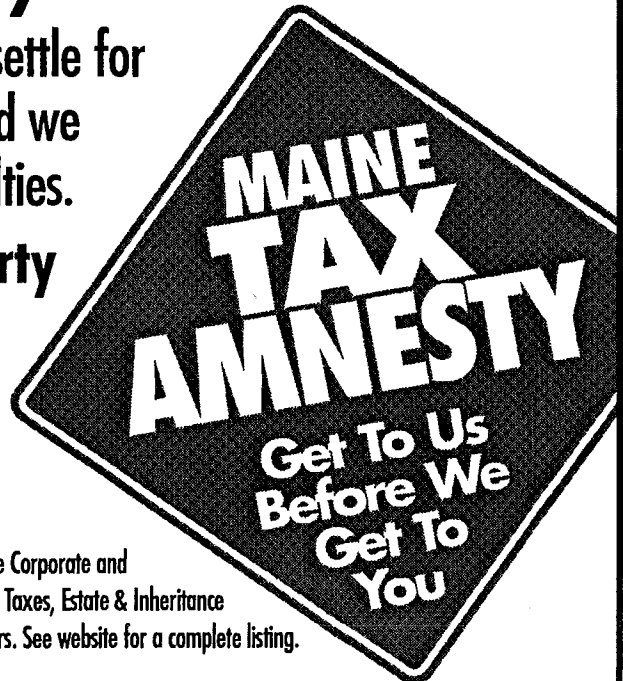
[www.maintaxamnesty.org](http://www.maintaxamnesty.org)

# Do You Owe the State of Maine BACK TAXES?

***Pay what you owe by November 30th...***

Maine Revenue Services will settle for HALF the accrued interest, and we will DROP the fines and penalties.

- **Protect your funds & property from attachment or liens.**
- **Avoid added penalties.**
- **Avoid prosecution.**



Back Maine Taxes for which Amnesty may be applicable include: Maine Corporate and Individual Income Taxes, Withholding Tax, Sales & Use Tax, Motor Fuel Taxes, Estate & Inheritance Tax, Franchise Tax, Telecommunications Business Tax, and several others. See website for a complete listing.

## **AMNESTY OFFER ENDS NOVEMBER 30th**

*Applications available at your town hall, post office, library, or online. Or call us toll free. Walk-In Office at Shaw's Plaza, 151 Western Ave. in Augusta.*

**TOLL  
FREE**

**1-866-430-3161**

**[www.mainetaxamnesty.org](http://www.mainetaxamnesty.org)**

# Back Taxes.

*The most common back taxes owed to the State of Maine:*

## **Maine Sales Tax**

The use tax on out-of-state retail, catalog, telephone and internet purchases.

## **Maine Withholding Tax**

## **Maine Corporate and Individual Income Taxes**

## **Maine Estate & Inheritance Taxes**

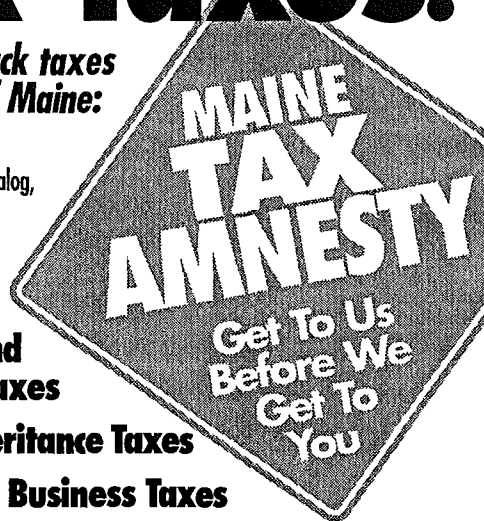
## **Telecommunications Business Taxes**

*Now is your chance to make things right, and with all fines and penalties and half the interest waived.*

If you think you might not have paid Maine taxes at any time, get an information packet and application today at your town hall, post office, library, or online.

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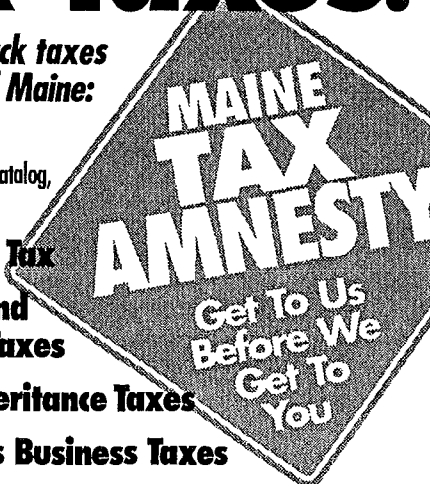
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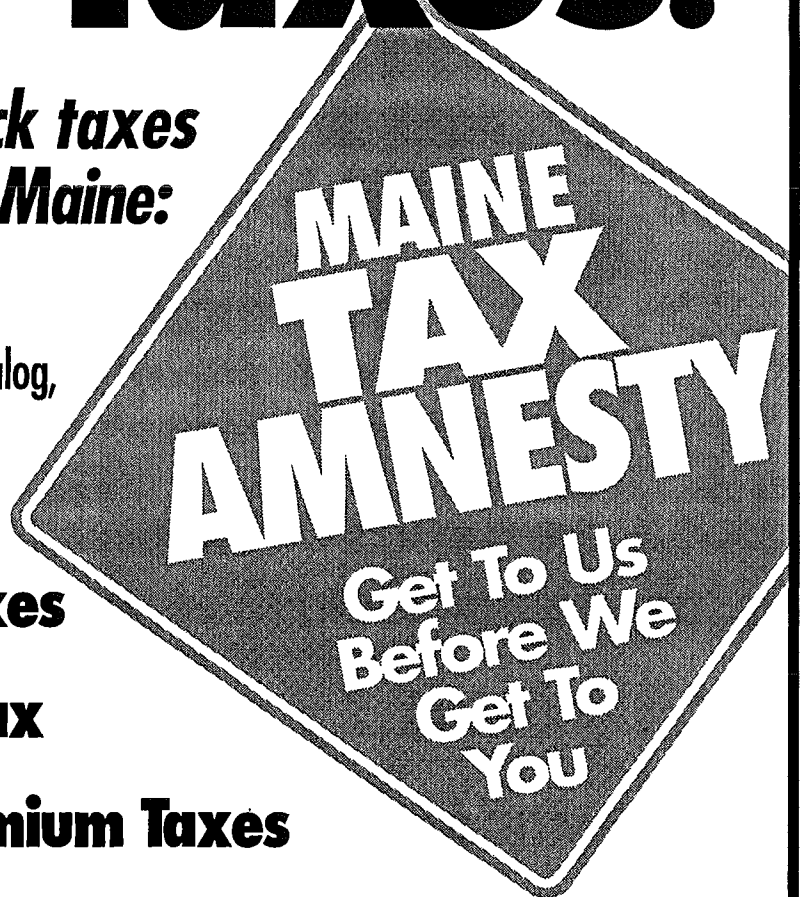
## **Maine Withholding Tax**

## **Maine Insurance Premium Taxes**

## **Maine Estate & Inheritance Taxes**

*Now is the chance to make things right. And those who pay what they owe by 11/30/03 will have all fines & penalties and half the interest waived.*

If you have clients who may not have paid any of their Maine taxes at any time, advise them to get an application today at their town hall, post office, library, or online.



# **AMNESTY OFFER ENDS NOVEMBER 30**

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**2 Weeks Left**  
**to get to us**  
**before we**  
**get to**  
**you!**



**ENDS NOV. 30th**  
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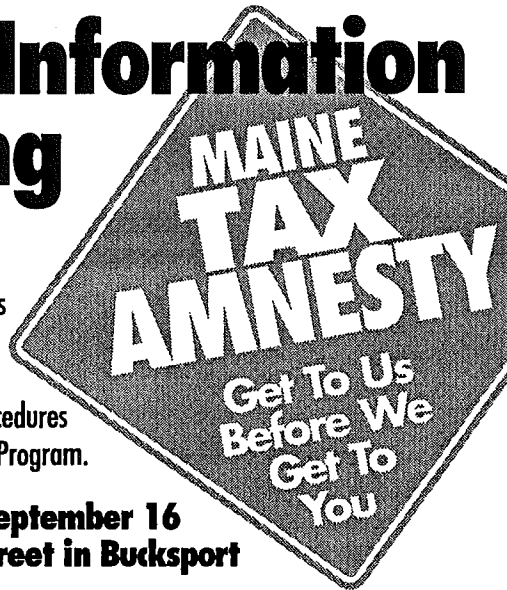


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# Public Information Meeting

**Presented by Maine Revenue Services**

Tax practitioners, businesses and individuals are invited to this informative meeting about the benefits and procedures of the Maine Tax Amnesty Program.



**7-9pm, Tuesday, September 16  
Town Hall, Main Street in Bucksport**

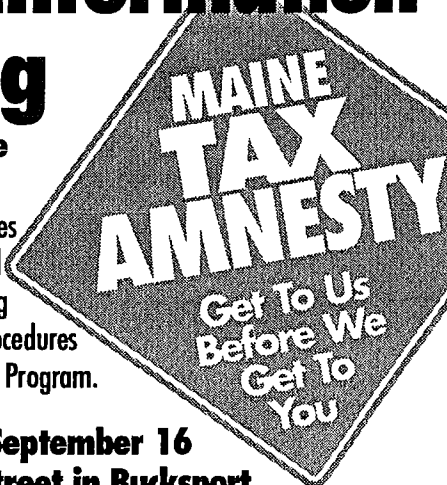
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