Briefing note on OPEGA report "Information to Support 2019 Expedited Reviews of Maine State Tax Expenditures"

Background

The 126th Maine State Legislature tasked OPEGA with developing a proposal for a process to provide ongoing legislative review of the State's tax expenditures. Tax expenditures are government revenue losses due to tax provisions that allow taxpayers to reduce their tax burden. The purpose of the reviews are to inform policy choices and the policy making process.

The Taxation Committee considers the results of the reviews and submits a report to the Legislature. The Taxation Committee may recommend or initiate legislative action, as it considers warranted. The Government Oversight Committee (GOC) oversees OPEGA's efforts, as well as the ongoing legislative review process.

Overview

The GOC, in consultation with the Taxation Committee, previously assigned each statutorily established tax expenditure to one of three review categories: full evaluation, expedited review, no review. Tax expenditures selected by the Committees for expedited review are those intended to implement broad tax policy goals that cannot be reasonably measured.

The 17 tax expenditures selected by the Committees for expedited review in 2019 include exemptions from the sales and use tax and exemptions from the service provider tax. Each of these tax exemptions were classified under the policy area described as "Charitable."

The information OPEGA is required to provide includes:

- a description of the tax policy under review;
- descriptions of each tax expenditure, the distribution mechanism, and intended beneficiaries;
- the legislative history of each tax expenditure; and
- the fiscal impact of the tax policy and related tax expenditures, including past and future impacts.

"Chartable" Policy Area

OPEGA's 2015 Proposal for Legislative Review of Maine State Tax Expenditures defined the "Charitable" policy area as:

> *Charitable expenditures are expenditures which exempt charitable organizations from taxes. For purposes of this classification, charitable organizations include government, educational, nonprofit, religious, health care and other organizations that assist particular groups in need.*

The expenditures that were categorized under the “charitable” rationale are diverse and do not share a common tax policy. OPEGA has grouped the tax expenditures subject to expedited review in 2019 into groupings of similar exemptions, based on the intended beneficiaries. The groupings of expenditures described as “Charitable” are listed as:

1) Public Support for Certain Organizations;
2) Public Support for Students, Youth and Schools; and
3) Public Support for Persons with Disabilities (table 1, page 3)

Fiscal Impact Estimates

The fiscal impact estimates represent estimated foregone revenue for the State. MRS uses various methods to estimate the forgone General Fund revenue loss (see below). The reported estimates are taken from the Maine State Tax Expenditure Reports (MSTER).

The four expenditures grouped into the category of “Public Support for Students, Youth and Schools” constitute the majority of these 17 tax expenditures (table 2, page 4). Estimates for each of the 17 tax expenditures in this report are generally consistent across years, with one exception. There was a variation seen in “Meals Served by Public or Private Schools” between FY17 and FY18 due to a change in the way MRS calculated the estimates (appendix B, page 26).

Information on Individual Tax Expenditures

The report contains a series of tables summarizing the information OPEGA is required to provide for each tax expenditure (pages 6-23). The information included for each tax expenditure is: statutory reference, distribution mechanism, brief description, intended beneficiaries, estimated fiscal impact (and notes), and legislative history.

MRS told OPEGA they do not use the fiscal estimates to look at trends; rather, the numbers are “point in time” based on the economic forecast using the best information available at the time. Estimates are influenced by the anticipated tax rates, economic activity, policy changes, available data, and other factors. This makes it challenging to discern any trends or policy impacts over time using the revenue loss estimates published in the MSTER. Neither OPEGA nor MRS was able to identify any existing data that could be used to assess how closely MRS’ estimates reflected actual forgone revenue, or any existing data that would better illustrate trends in fiscal impact.