

TAX EXPENDITURE REVIEW
MAINE CAPITAL INVESTMENT CREDIT
1/12/22

	Summary	Notes
Why are we here?	<p>1. The Tax Expenditure Review Law (3 MRSA c. 37) requires the Legislature to periodically review various tax expenditures¹. Different procedures apply to:</p> <p style="padding-left: 40px;">A. Full review provisions (OPEGA evaluation)</p> <p style="padding-left: 40px;">B. Expedited reviews. (OPEGA provides info; no evaluation)</p> <p>MCICs are “full review” provisions.</p>	<p>1. OPEGA completed its evaluation of MCIC (February 2020).</p> <p>2. GOC has endorsed the OPEGA report and sent it to the TAX committee with related materials (1/15/21)</p>
Taxation committee responsibility 3 MRSA §999.4	<p>1. Review the results of the OPEGA evaluation</p> <p>2. Review GOC’s review of report and other materials submitted to TAX</p> <p>3. Submit a report to the Legislature documenting TAX Committee’s activities and recommendations</p> <p>4. May submit bill to the Legislature to implement TAX Committee recommendations (no deadline specified).</p>	<p>3. TAX is directed by statute to submit to Legislature a report of its activities and recommendations regarding the report by the later of</p> <p style="padding-left: 40px;">A. 90 days after receipt and</p> <p style="padding-left: 40px;">B. The adjournment sine die of the regular session during which the materials were received.</p> <p>TAX may submit a bill to the Legislature to implement its recommendations.</p>
What is MCIC	<p>MCIC is an income tax credit, as currently structured, based on eligible depreciable property placed in service in Maine. This credit is a substitute for the federal bonus depreciation deduction. Originally enacted in 2011, the amount and structure of the credit has changed frequently over time.</p> <p>For tax years beginning on or after 1/1/21, the credit for both individual and corporate taxpayers is 1.2% times the bonus depreciation add-back.</p> <p>Federal bonus depreciation (currently 100%) is scheduled to phase down beginning in 2023</p>	

¹ ...”**Tax expenditures**” means those state tax revenue losses attributable to provisions of Maine tax laws that allow a special exclusion, exemption or deduction or provide a special credit, a preferential rate of tax or a deferral of tax liability.” 5MRSA §1666

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What is purpose; intent; goals?:	<p>There are no specified statutory purposes, intent or goals for the MCIC.</p> <p>One goal is to maintain competitiveness with States that conform to federal bonus depreciation.</p>	<p>Purposes identified by OPEGA/GOC for purposes of evaluation:</p> <ol style="list-style-type: none"> 1. OPEGA identified the goal of keeping relative conformity with the federal Internal Revenue code. 2. GOC identified the goal of providing an incentive for businesses to make capital investments in Maine
Beneficiaries		<p>Businesses investing in qualifying business property in Maine that are able to claim federal bonus depreciation with the exception of certain utility and communications businesses.</p>
Impact of complexity of the credit		<p><u>OPEGA Finding 1: MCIC is complicated for businesses</u> <u>Report p. 12</u></p> <p>The complexity of maintaining separate sets of books to accommodate both federal depreciation and Maine’s structure of bonus depreciation addbacks and credits may discourage investment in Maine.</p> <p><u>OPEGA Finding 2. MCIC is unlikely to encourage businesses to expedite their capital investments to any significant degree.</u> <u>Report p. 12</u></p> <p>Businesses are more likely to be driven by economic conditions and short-term sales and earnings outlook than by tax considerations.</p> <p><u>OPEGA Finding 3. MCIC is unlikely to encourage businesses to choose Maine over other states when making capital investments.</u> <u>Report p. 12</u></p> <p>The simplicity of conformity is more attractive than the benefit provided by the credit.</p>

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Cost of MCIC	<p>2019 <u>MRS estimate of revenue loss for credits first claimed after 2020:</u>²</p> <p>FY 21 \$2,800,000 FY 22 \$4,250,000 FY 23 \$5,000,000</p> <p>Number of taxpayers affected: Approximately 5000</p>	
Administrative provisions	The credit is obtained by claiming it on income tax return. MRS administers	

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² . Figures from MRS, *Maine State Tax Expenditure Report, 2022-2023*.