SUMMARY
SUBCOMMITTEE MEETING -- September 26, 2011
Room 127 - State House, Augusta

Background and Overview

The Joint Standing Committee on Taxation formed a 3-member subcommittee to hold discussions with certified public accountants, economists, tax attorneys, leaders in business and higher education, members of the economic development community and others in the private, public and non-profit sectors in order to gain additional insight into problems that may exist in Maine's current tax laws and to identify possible areas of reform on which the Taxation Committee should focus. The Subcommittee organized a series of 5 small group discussion and the first 3 discussions were held on September 26, 2011.

Each discussion opened with a brief history of recent tax reform efforts (provided by Senator Woodbury) and the group member introduced themselves. (Biographical information about the participants is available at: http://www.maine.gov/legis/ofpr/taxation_committee/interim_schedule/bios_2011_09_26.pdf).

Each small group discussion included a time for opening thoughts, discussion and a wrap-up. Also, Senator Woodbury provided draft handouts for discussion purposes on selected categories of Maine tax revenues and tax expenditures to each group of participants. (See attachment A.)

The summary below provides highlights of the discussions and synthesizes the general themes that emerged. This summary is not intended as meeting minutes.

Subcommittee Members

- Senator Richard G. Woodbury, Subcommittee Chair
- Representative L. Gary Knight
- Representative Donald E. Pilon

8:30 a.m. – 10:30 a.m.

Small Group Session #1

- Alan Caron, Caron Strategies Group/Envision Maine
- Professor Orlando E. Delogu, Maine School of Law
- Amanda Rector, State Economist

Opening Thoughts

Amanda Rector **–** suggested that the principles *(see Committee meeting summary 9/7/11)* provided by the Taxation Committee are sound; a tax code that is simple, equitable, adequate, and balanced is a good goal. However, it is not a goal that is necessarily easy to achieve. There are often trade-offs. Is stability most important? Simplicity? Suggested that the Committee may need to think about which principles are most important. Maine is heavily reliant on property taxes and this may be an area that may be most fruitful in tax reform. There may be opportunities for reform in the areas of municipal revenue sharing, education funding, exemptions, and circuitbreaker that may achieve multiple goals such equity and stability. Ms. Rector also told the subcommittee to keep changing demographics in mind. How this will influence tax revenues? In terms of income taxes, people are living on fixed and lower incomes; they may be buying less or an aging population may shift purchasing patterns such as not buy new cars or purchasing more recreation and services. The Committee may need to think about how tax exemptions factor into this. Also, the Committee should consider if they want tax policy to influence demographics such as attracting more young people. The greatest way to increase tax revenue is by increasing jobs, improving profitability of companies and making the State economy more vibrant, which goes beyond tax policy.

Professor Delogu **–** provided some written remarks and suggested that a major theme is "do no further harm." Professor Delogu's remarks covered six areas: sales tax, taxation of internet sales, income taxation, tax expenditures, increased pressure on property taxation, and local option tax. Maine's sales tax is lower than many states and made suggestions in this area that include: stop granting exemptions, reduce existing exemptions, broaden the base to reach discretionary services and increase meal and accommodation taxes. Related to internet sales tax, he recommends that Maine join the majority of sales-taxing states by formally adopting the Streamlined Sales and Use Tax Agreement. Related to income taxation, he noted the decline of corporate sales tax and suggested it would be unwise to exempt pensions from state income taxes. Professor Delogu recommended increasing the reduction to BETR reimbursement, expanding the circuitbreaker and advocated the local option sales tax. (See attached paper for additional information – Attachment B.)

Alan Caron **–** suggested that tax reform may mean different things to different people and it's important to clearly define the goals of reform. Is it to lower taxes? Lower cost of government? Reduce volatility in tax revenue? Off-setting one type of tax with another? Grow the economy? It is important to make sure there is consensus on what the goal is before moving forward with plan. Beyond agreeing on goal, the use of facts and data to replace slogans and ideas may be the process needed to get tax reform accomplished. He suggested that developing data and measures will help do this. The single most important thing that could be done is to apply same rigor to evaluation of tax exemptions/expenditures as budget writers do in evaluating the spending side. He suggested developing measures for tax expenditures that are designed for job creation, create sunsets for tax expenditures, and review tax exemptions regularly, perhaps every five years.

Group Discussion

Ideas discussed in more detail included further lowing the income tax rate, simplification of filing taxes, sales tax reform including local option sales tax, the need for property tax relief, balance of taxes, tax expenditures, and revenue sharing.

Income tax **–** There was discussion of simplification of the income tax laws such as taking a percentage of federal adjusted income tax and federal conformity. The seemed to be consensus on the need for more simplified tax forms and the subcommittee requested information on other states that have more simple forms. There was discussion of reviewing tax expenditures including income tax deductions and whether there are some to eliminate in exchange for a lower income tax rate.

Sales tax **–** It was noted that Maine's sales tax is low compared to many states. One suggestion discussed was a local option sales tax that would piggy back on the state sales tax and include an administrative fee for the State. It could be implemented regionally or with a portion going to counties.

Property taxes - Much of the focus seemed to be on the property tax with statements that property taxes are high and lower income people pay a higher portion of income. Some suggested that this may in part be a function of State revenue shortfalls and shifting burdens to municipalities. It was noted that the one tax reform initiative that passed in last ten years was the school funding referendum requiring the State to pay 55% of education funding.

Balance **–** The discussion on balance include comments about high property taxes and high income taxes. Should the balance be 1/3 property, 1/3 income, and 1/3 consumption?

***Tax expenditures* –** discussion focused on which ones should be reviewed. Comments were made on measuring, means testing, collection of data and analysis to support the expenditures. Also, there was discussions of evaluations have been conducted by the Taxation Committee in the past noting the political will is needed to actually take away expenditures.

***Revenue Sharing* –** may be opportunities for reform in this area to provide some property tax relief such as changing the formula. May consider service centers and rural towns and consider that high mill rate may not tell whole story and look ability to pay versus desire for services. Could increase revenue sharing to lower property tax burden, but should be specifically tied to property tax reductions.

***Other ideas* –** One model suggested was the European value added tax (VAT). The last reform package was complicated. Need to keep this reform package simple – easy for people to understand (example provided/not a proposal– estate tax tied to federal tax by checking a box, lower income tax by 1%, find a greater balance between taxes by raising sales tax from 5% to 6% and more revenue sharing.) Look at other taxes as well impact of implementation future changes such as estate tax changes and the changes to fuel taxes.

<u>Small Group #1 Wrap–up</u> - emerging themes during this discussion:

- Need to ensure that Committee has consensus on tax reform goals;
- Property taxes continue to be an area of concern;
- Simplicity is desirable in both the tax code and packaging tax reform; and
- Tax expenditures need more scrutiny.

11:00 a.m. – 12:45 p.m.

<u>Small Group Session #2</u>

- Conrad Ayotte, JS McCarthy Printers
- Jim Clair, Goold Health Systems
- Dr. Theodora J. Kalikow, President, University of Maine at Farmington
- Harvey Rosenfeld, Scarborough Economic Development
- Thomas Sturtevant, ALCOM, Inc.

Opening Thoughts

***Harvey Rosenfeld* –** Remarks noted that when recruiting companies taxes not mentioned, but skill levels of workforce. Need to make sure that tax reform is looked at comprehensively so that resources are available for Community Colleges, University System and workforce training.

***Theodora J. Kalikow* –** Tax reform involves large social issues; not interested in reducing taxes just for the sake of cutting taxes. Need to look at ways of better coordination with business community and the jobs that are being created. Need to look at tax issues in the larger context.

***Jim Clair* –** Need a strategic approach to tax reform. Agreed in looking at larger context, but to avoid some of the obstacles of past reform, may need to focus on the revenue side before getting to the spending side. He suggested principles including: simplicity, fairness, progressively, consistency, and competitiveness with other states. But most important principle should be to be strategic or targeted, such as using a target of revenue such as a percentage of gross state product. Also, it is important to coordinate with the appropriators/budget writers.

Conrad Ayotte - Maine's tax structure creates volatility in revenue; in trying to address this the Committee needs to keep in mind that Maine doesn't operate in a vacuum and it is important for Maine businesses to be able to compete with out-of-state companies. Also, keep in mind that a large portion of "corporate" tax revenue comes into the state in the form of individual returns because of the large number of subchapter S corporation and LLC's in Maine, so changes to individual income taxes impact business, too. Maine's capital investment tax credit created this last session (10% of federal bonus depreciation) is important for investment in equipment. A lower tax bill means more investment in the business. Constant changes in the tax code are the biggest problem; anything the Legislature can do to take some of the uncertainty out of the business decisions related to taxes will help. (Gave example of multiple changes to the BETR program.)

Thomas Sturtevant **–** For job opportunities, we may need to look at skills of existing workforce rather than using State resources to train people. Would rather train own people for jobs than have training schools do it. He indicated that he has federal and state "incentives" to hire more people but does not believe the incentives drive the hiring. He operates from a business model that is successful and allows for growth and hiring more people when needed. His decisions to start businesses in Maine are related to family and he would be in a different state due to taxation of long-term capital gains and state income tax. Other states such as Tennessee are attractive due to combination of workforce and tax structure.

Group Discussion

Senator Woodbury suggested 3 items for group discussion including: 1) what are one or two aspects of tax code that are problematic, 2) what is the appropriate balance of revenue sources (income tax, property tax, sales tax) and 3) tax expenditures.

Income tax **–** It was mentioned that the top bracket starts at income that is too low and should be addressed as well as considering reform in area of earned income tax credits. There was discussion about the departure from federal conformity as a mistake; business participants indicated that it is difficult for business to keep track of depreciation in different ways. The different treatment of long-term capital gains at the federal level versus the State was a key point for one of the business participants since capital gains is treated as ordinary income in Maine. There was a discussion of whether a lower income tax rate would address the problem, but some participants felt they needed more careful analysis before they could comment as there were many factors to consider.

Property taxes **–** There was little discussion of property taxes, but the Circuitbreaker program was suggested as a continued means of property tax relief.

Sales tax **–** There was discussion of the narrow sales tax base as a contributor to volatile revenue. It was noted that increasing the rate to 6% would still be below national average. Several participants suggested or supported broadening the sales tax. One suggestion was for a statewide sales tax increase with 1% returned locally. There was a some discussion of a local option sales tax. A participant suggested that businesses don't look at sales taxes as much in location decisions.

Tax expenditures **–** Tax expenditures were discussed and it was noted that without detail and data it is hard to determine if there are expenditures that could be eliminated. Tax expenditures should be tied to job creation, but it is difficult for a job created, saved or attracted to be tracked and to determine if it is the result of the incentive.

Meals and lodging tax **–** Is there a way to separate? Some states have hotel/motel tax and this could be exported to tourists and have less of impact on residents than increasing the current combined meals and lodging tax, which affects Mainers who dine out. A participant stated that some states have lodging taxes that are 10% to 22 % when state and local taxes are combined.

BETR[*] **–** There was strong support from participants representing the business community for this program. In many other states business equipment is not taxed.

Ways and Means Committee - There was reoccurring comments and discussion over the idea of communication between the Appropriations and Taxation Committee. Support was expressed for the idea of a Ways and Means Committee.

Other ideas - There was some discussion of tax increment financing districts with some participants not being particularly supportive of them and other participants from the business community stating that they like them. Concern over the budget stabilization fund was expressed. Also, concern over funding of future road, highway infrastructure with the combination of fuel efficient vehicles, people driving less and heavy reliance on fuel tax. Estate taxes were mentioned as factor for business decisions of whether to stay in Maine. There was discussion about the lack of strong county government and need for regionalization. There was discussion of the need to build strong coalition to accomplish tax reform goals and a suggestion that change may need to be incremental. Discussion of Maine's image and business climate included comments related to quality of life and role taxation plays in greater scheme of growing the economy.

<u>Small Group #2 Wrap–up</u> - emerging themes during this discussion:

Maine is competing against other states for business;

Tax structure (and workforce development) should support and not hinder business recruitment;

To accomplish goals of tax reform comprehensive reform must have strong support and a referendum is a good idea;

Tax structure changes may need to be incremental;

Sales tax may have potential for reform;

Lodging tax may be an area to look at separately from meal tax;

Income taxes are an area of concern, but concerns are different for different groups; and

May need to look at other taxes such as fuel taxes.

3:00 p.m. – 5:00 p.m.

<u>Small Group Session #3</u>

- Dr. Charles Colgan, University of Southern Maine
- Chip Morrison, Androscoggin County Chamber of Commerce
- Matt Jacobson, Resilient Tier V Corporation
- Dr. Danielle N. Ripich, President, University of New England
- Anne Romano, Certified Public Account

[*] Although BETE was not discussed, this may be an exemption that is also important since it provides an exemption for businesses equipment in lieu of the BETR reimbursement.

Opening Thoughts

***Matt Jacobson* –** Taxes need to generate enough revenue for State's needs and should provide incentives for jobs creation either through incubation, recruitment or expansion. The Committee needs to think about how taxes impact businesses in these different groups and should keep in mind Maine is competing against other States. Often Maine is eliminated due to costs; not necessarily just taxes, but overall cost of doing business. Tax structure plays a part.

***Chip Morrison* –** Keep in mind that taxes impact small business and are paid through personal income tax. Property taxes continue to increase and this is a reflection of the stress on municipal government as federal and state revenues dry up. Municipalities will have to cut services or raise property taxes. The State's estate tax still does not conform with the federal code and this an issue; changes made last session helped. Mr. Morrison expressed support for a decrease in the income tax and increase and/or broadening of the sales tax.

***Dr. Danielle N. Ripich* –** Out-of-state students that come to Maine often stay if their first job is here. For example, 72% of the physicians that do their residency here will make Maine their home. Need to keep in mind how tax structure impacts these students as well as faculty and the educational institutions that recruit them. The University of New England is currently looking at new business program and trying to decide best course of action including whether to focus on small business or international business. Tax reform should help provide incentive for higher education and business community to collaborate.

***Anne Romano* –** suggested lowering income tax; the Committee may want to quantify the bottom line of how low we can go and where it can be made up. Sales tax could be increased and broadened; lodging tax could be increase and we should try to export taxes. To pass, the reform needs to be simple. The changes should make the tax structure simpler; decoupling from federal tax code makes taxes too complicated, filing estate taxes is complicated because of the paperwork needed even though a tax filer may ultimately not end up owing the estate tax.

***Charles Colgan* –**positive aspects of current tax system include balance among income, sales and property compared to other states. Maine's tax system is moderately progressive or regressive depending on which statistics you use, roughly proportional. The biggest issue is stability in terms of predicting revenue; what ever happens in the economy is magnified at the revenue level due to the narrow sales tax base and income tax base. He suggested that the Committee needs to think of tax and expenditure sides together and noted that half of all expenditures go to municipalities. He provided a history of the State's interaction with the local tax system and indicated that the state and local systems need to be worked on together. He shared lessons from 1987 reform noting that it was at this time that the circuitbreaker was put in place. There was a suggestion then to have state collect property tax with the income tax that was rejected. There is need to at least recognize the integration of the two systems. He suggested broadening the sales tax to include more consumer services and stated that many other states have local option taxes. If there is a local option sales tax in Maine it should be regional, at the county level, by vote referendum with major of citizens from counties and towns and formula that channels revenue back to all towns doesn't favor larger towns. He discussed the comparison of New Hampshire and Maine and explained that the NH business franchise tax (a form of a value added tax) applies to goods and services. It is paid and collected by business, but ultimately paid by consumers and therefore, is essentially a sales tax. It is a stable revenue source and something worth looking at. Current income tax rate structure is outdated as it was designed for the late 1980s income brackets.

Income was growing at the time and is stagnant now. Income tax in Rhode Island and (Vermont?) take a cut off the federal income tax and don't worry about the base. Taxes are not driver of economic development. Taxes are looked at in terms of ease of administration, adequacy, and horizontal equity and vertical equity (or progressivity). They can be optimized for a few of these, but not all four. How you want to balance these is a political decision.

Group Discussion

***Income tax* –** In business recruitment, there are incentives like the Pine Tree Zone that forgive corporate income tax for a period of time. For existing business, corporate income taxes will matter and property taxes matter to both existing and new business. Individual income taxes are an issue for businesses structured as S-corps and for business in the incubation stage as well as for attracting investment. The Committee needs to look at how the income tax structure influences investment in and by business. There was discussion of an income tax rate as low as 3% or 4% and possibly exchanging income tax deductions and exemptions for the lower rate. Coming into Maine from another state, one participant said the income tax wasn't as big of a factor as the property tax.

***Sales tax* –** There was discussion of a local option sales tax and the idea of bringing it up to the regional level with a referendum as proposed in Dr. Colgan's opening thoughts. There was discussion of using revenue sharing as a means of distributing the additional resources to municipalities. Some participants cautioned that a local option sales tax is often perceived as just one more tax regardless of beneficiaries. There was discussion of an expanded base in the area of consumer services and past push back in this area. There will need to be a clear message of the net benefit (savings) if sales tax is expanded to certain services that are now exempt. Changes in the sales tax area may get push back and thoughtful development of the best areas for reform in this area of taxation is needed.

***Balance* –** There was discussion of the balance and whether it was right. Most past reform focused trying to shift away from property tax to income and sales tax. Property tax will be affected by a poor housing market for near future and is an issue to consider as a reform package is developed. There will never be a true balance in one year or biennium and the Committee needs to think of the balance of taxation over a business cycle.

***Property taxes* –** there continues to be concern that property taxes are high; one participant noted that they were 3 times as high as former state of residence. The constitutional requirement in Maine of "just value" is not often required in other states and it is designed to address horizontal equity. It has advantages and disadvantages. There was some discussion of how to maximize the Circuitbreaker as a way to address property tax. Local option sales tax can be looked at in area of property tax relief and in a comprehensive package.

***BETR* –** support was expressed for keeping this as to be competitive with states that do not tax business equipment to begin with.

***Revenue Sharing* –** May be opportunities for reform in this area to provide some property tax relief such as tying into a local option tax.

***Tax expenditures* –** The discussion of tax expenditures included income tax deductions with a suggestion that the Committee may be able to be able to eliminate some in exchange for a very low income tax rate. In the area of sales tax expenditures, there was a bigger focus on expenditures that may be discretionary such as amusement and recreational services. Also need to carefully access expenditures before eliminating those that may be exemptions that are rely on government funding as source so you are not just shuffling money around.

***Other ideas* –** Need to have simple system and communicate that the net effect of the reform is lower than what people are paying now. Ways and Means Committee not a bad idea – need to look at spending and taxation together. Should look at other taxes such as cigarette taxes and the taxation of fossil fuels was discussed as well. There was significant concern expressed about fuel taxes and how to fund future infrastructure. The need for taxation policy that attracts investment was discussed related to Maine Technology Institution versus private capital investment.

Small Group # 3 Wrap–up - emerging themes during this discussion:

- Income tax could be lower, but need to figure out trade-offs and make more simple;
- Property taxes continue to be an area of concern;
- There could be opportunity for sales tax reform by broaden base, reducing exemptions or increasing rate as well as considering a local option sales tax that is regional and feeds back into revenue sharing;
- Simplicity in packaging tax reform is needed

Re-occuring themes from all discussions

- Tax reform should simplify the tax laws.
- The tax reform goals of the Committee should be simple and clear. There should be consensus for the package and a referendum is a good idea. The reform package presented to the people needs to be simple to explain and easy to understand.
- A lower income tax rate is desirable, but making up the revenue loss is problematic. The Committee needs to particularly keep in mind individual income taxes as they affect businesses structured as LLCs and S-corps as well as other flow-through income for investors. The Committee may want to consider closer conformity to federal law for simplified administration for taxpayers and government.
- Sales tax reform should be a goal due to Maine's relatively low rate, narrow base and large number of tax expenditures in this area. However, the details of accomplishing reform in this area need further discussion and development. There has been significant push back in the past and this may be a continued area of resistance for some.
- Property taxes continue to be an area of concern; State and local taxes need to be considered as a whole system due to the impact state revenue changes have on local government.
- Strong communication between those involved on spending side and taxation side is essential.
- Tax expenditures need further scrutiny and a process for evaluation. There may be some tax expenditures that can be eliminated in exchange for other changes in the tax laws that would make Maine's tax structure simpler. (Please note at the October 12, 2011 meeting, the Taxation Committee will be reviewing draft language (voted 9/7/11) for a bill to evaluate proposed new exemptions.)

Rough Draft
Not reviewed

Attachment A

Provided by Sen Woodbury
9/26

Maine Revenues (Budget)
Selected Tax Categories, FY2012

Individual Income Tax	$1,445,821,209
Sales Tax (Rough Allocations)	
-- General Sales Tax (5%)	$764,812,221
-- Service Provider Tax (5%)	$56,877,680
-- Meals and Lodging Tax (7%)	$186,000,000
-- Auto Rental Tax (10%)	$5,000,000
	$1,012,689,901
Gas & Fuel Taxes	$220,060,607
Corporate Income Tax	$180,396,827
Cigarette and Tobacco Tax	$143,623,350
Motor Vehicle Reg & Fees	$82,321,855
Insurance Company Tax	$76,215,000
Estate Tax	$35,810,855
Finance Industry Fees	$23,265,980
Liquor Taxes and Fees	$20,467,530
Hunting & Fishing Fees	$17,332,248
Telecommunications Tax	$14,641,734
Real Estate Transfer Tax	$9,767,309

Rough Draft
Not reviewed

Attachment A

Provided by Sen Woodbury 9/26

MAINE TAX EXPENDITURES
Selected Categories, FY2012

Personal Income Tax Deductions	
Home Mortgage Interest	$95,833,925
Taxes Paid (Property, Local, Other States)	$76,012,103
Charitable Contributions	$62,621,100
Social Security Benefits Taxable at Federal Level	$55,215,900
Medical Expenses, Long-Term Care, Losses, 529 Contributions	$15,039,678
Pension Income Taxable at Federal Level	$13,761,700
Exempt Sales of Consumer Products and Services	
Grocery Staples	$74,784,000
Separately Charged Labor Service Fees	$41,068,500
Coal, Oil & Wood for Cooking & Heating Homes	$32,518,500
First 750 KW Hours of Residential Electricity Per Month	$25,194,000
Amusement & Recreational Services	$21,071,000
Certain Telecommunications Services	$9,443,000
Water Used in Private Residences	$8,151,000
Barber Shop, Beauty Parlor and Health Club Services	$5,681,000
Gas When Used for Cooking & Heating in Residences	$4,636,000
Publications Sold on Short Intervals	$4,199,000
Basic Cable & Satellite Television Service	$3,657,500
Funeral Services	$3,486,500
Cleaning, Storage and Repair of Clothing and Shoes	$2,498,500
Sales Through Coin Operated Vending Machines	$457,126
Exempt Sales of Professional, Medical & Specialized Services	
Health Services, drugs, prosthetics, diabetes supplies	$322,657,666
Finance, Insurance & Real Estate Services 1752(11)	$295,602,000
Professional, Scientific, and Technical Services 1752(11)	$98,277,500
Construction Services 1752(11)	$97,061,500
Social, Religious, Welfare, Membership and Other Organization Services	$74,451,500
Administrative and Support Services 1752(11)	$61,123,000
Educational Services 1752(11)	$46,597,500
Management of Companies and Enterprises Services 1752(11)	$45,144,000
Business and Legal Services Purchased by Consumers 1752(11)	$19,256,500
Information Services 1752(11)	$15,694,000
Mobile & Modular Homes 1760(40)	$5,193,547
Exempt Sales to Non-Profits (and by Non-Profits)	
Sales to Hospitals, Research Centers, Churches and Schools 1760(16)	$6,000,000 or more
Construction Contracts with Exempt Organizations 1760(61)	$1,000,000 – $3,000,000
Sales by Schools & School-Sponsored Organizations 1760(64)	$250,000 - $1,000,000
Sales to Ambulance Services & Fire Departments 1760(26)	$250,000 - $1,000,000
Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	$250,000 - $1,000,000
Sales to Nonprofit Youth & Scouting Organizations 1760(56) & 2557(18)	$250,000 - $1,000,000
Certain Sales by an Auxiliary Organization of the American Legion 1760(85)	$50,000 - $250,000
Sales to any Nonprofit Free Libraries 1760(50)	$50,000 - $250,000
Sales to Certain Nonprofit Residential Child Care Institutions 1760(18-A)	$50,000 - $250,000
Sales to Comm. Mental Health, Substance Abuse & Mental Retardation Facilities	$50,000 - $250,000
Sales to Day Care Centers & Nursery Schools 1760(43)	$50,000 - $250,000
Sales to Emergency Shelters & Feeding Organizations 1760(47-A)	$50,000 - $250,000
Sales to Historical Societies & Museums 1760(42)	$50,000 - $250,000

Sales to Nonprofit Home Construction Organizations 1760(67)	$50,000 - $250,000
Sales to Nonprofit Housing Development Organizations 1760(72)	$50,000 - $250,000
Sales of Certain Qualified Snowmobile Trail Grooming Equipment 1760(90)	$50,000 - $250,000
Automobiles Sold to Amputee Veterans 1760(22)	Up to $50,000
Goods & Services for Seeing Eye Dogs 1760(35)	Up to $50,000
Sales to Centers for Innovation 2557.29	Up to $50,000
Sales to Certain Charitable Suppliers of Medical Equipment 1760(62)	Up to $50,000
Sales to Certain Incorporated. Nonprofit Educational Orgs. 1760(59)	Up to $50,000
Sales to Church Affiliated Residential Homes 1760(44)	Up to $50,000
Sales to Eye Banks 1760(77)	Up to $50,000
Sales to Hospice Organizations 1760(55)	Up to $50,000
Sales to Incorporated Nonprofit Animal Shelters 1760(60)	Up to $50,000
Sales to Monasteries and Convents 1760(65)	Up to $50,000
Sales to Nonprofit Rescue Operations 1760(53)	Up to $50,000
Sales to Organ. that Provide Residential Facilities for Med. Patients	Up to $50,000
Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans 1760(69)	Up to $50,000
Sales to Orgs that Fulfill the Wishes of Children with Life-Threatening Diseases	Up to $50,000
Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	Up to $50,000
Sales to Providers of Certain Support Systems for Single-Parent Families	Up to $50,000
Sales to Regional Planning Agencies 1760(37)	Up to $50,000
Sales to State-Chartered Credit Unions 1760(71)	Up to $50,000
Sales to Veterans Memorial Cemetery Associations 1760(51)	Up to $50,000
Self-Help Literature on Alcoholism 1760(57)	Up to $50,000

Property Tax

Municipal Revenue Sharing	$94,003,511
Maine Residents Property Tax Program Chapter 907	$41,083,286
Reimbursement for Taxes Paid on Certain Business Property (BETR)	$51,552,995
Homestead Exemption	$16,157,593
Reimbursement For Business Equipment Tax Exemption to Municipalities	$19,431,982

Business Incentives - Income Tax

Employment Tax Increment Financing Chapter 917	$7,156,182
Innovation Finance Credit 5219-EE	$3,800,000
Credit for Rehabilitation of Historic Properties 5219-R & 5219-BB	$3,676,679
Shipbuilding Facility Credit Chapter 919	$2,968,750
Super Credit for Substantially Increased Research & Development	$2,279,424
Jobs and Investment Tax Credit 5215	$1,000,000 – $3,000,000
Deduction for Affordable Housing 5122(2)(Z)	$1,583,770
Seed Capital Investment Tax Credit 5216-B	$1,388,173
High-Technology Investment Tax Credit 5219-M	$1,121,683
Research Expense Tax Credit 5219-K	$784,999
Pine Tree Development Zone Tax Credit 5219-W	$692,143
Tax Benefits for Media Production Companies 5219-Y, c. 919-A	$50,000 - $250,000
Forest Management Planning Income Credits 5219-C	$83,259
Deduction for Dentists with Military Pensions 5122(2)(BB)	Up to $50,000
Deduction for Contributions to Capital Construction Funds 5122(2)(I)	Up to $50,000
Quality Child Care Investment Credit 5219-Q	Up to $50,000
Biofuel Commercial Production and Commercial Use 5219-X	Up to $50,000
Tax Credit for Pollution-Reducing Boilers 5219-Z	Up to $50,000
Dental Care Access Credit 5219-BB	Up to $50,000

Business Incentives - Sales Tax Exemptions

Property Used in Manufacturing Production 1760(74)	$102,942,000
Transportation and Warehousing Services 1752(11)	$54,625,000

Fuel and Electricity Used in Manufacturing 1760(9-D) & 2557(36)	$23,894,221
Machinery & Equipment 1760(31)	$21,869,000
Packaging Materials 1760(12-A)	$10,668,500
Refund of the Special Fuel Tax for Off-Highway Use and for Certain Bus Cos. 3218	$4,199,684
Products Used in Agricultural and Aquacultural Production & Bait 1760.7(A) – 7(C)	$2,118,500
Refund of Sales Tax on Certain Depreciable Machinery and Equipment 2013	$2,027,468
Certain Jet Fuel 1760(8-B)	$1,916,112
Certain Returnable Containers 1760(12)	$1,265,866
Certain Vehicles Purchased or Leased by Qualifying Resident Businesses	$854,486
Sales of Certain Aircraft 1760(88)	$827,427
Ships Stores 1760(4)	$250,000 - $1,000,000
Water Pollution Control Facilities 1760(29)	$250,000 - $1,000,000
Air Pollution Control Facilities 1760(30)	$250,000 - $1,000,000
Pine Tree Development Zone Businesses; Reimbursement of Certain Taxes	$250,000 - $1,000,000
Sales of Tangible Personal Property to Qualified Development Zone Businesses	$250,000 - $1,000,000
Refund of the Gasoline Tax for Off-Highway Use and for Certain Bus Cos. 2908	$267,776
Certain Loaner Vehicles 1760(21-A)	$227,595
Railroad Track Materials 1760(52)	$190,000
New Machinery for Experimental Research 1760(32)	$50,000 - $250,000
Seedlings for Commercial Forestry Use 1760(73)	$50,000 - $250,000
Fuel Oil for Burning Blueberry Land 1760(9-A)	Up to $50,000
Fuel Oil or Coal which become an Ingredient or Component Part 1760(9-G)	Up to $50,000
Automobiles Used in Driver Education Programs 1760(21)	Up to $50,000
Certain Aircraft Parts 1760(76)	Up to $50,000
Sales of Certain Farm Animal Bedding & Hay 1760(78)	Up to $50,000
Animal Waste Storage Facility 1760(81)	Up to $50,000
Sales to Centers for Innovation 1760(84)	Up to $50,000
Sales of Tangible Personal Property to Qualified Wind Power Generators 1760(89)	Up to $50,000
Fish Passage Facilities 2014	Up to $50,000
Reimbursement of Tax to Certain Qualified Wind Power Generators 2017	Up to $50,000
Refund of Excise Tax on Fuel Used in Piston Aircraft 2910	$23,135

Special Treatment of Pensions and Health Care

Employer-Provided Pension Contributions and Earnings	$228,588,997
Employer-Paid Medical Insurance and Expenses 5102(1-D)	$147,859,900
Exclusion of Medicare Benefits	$87,936,600
Exclusion of Benefits Provided under Cafeteria Plans 5102(1-D)	$47,989,000
Exclusion of Investment Income on Life Insurance and Annuity Contracts	$39,293,625
Pension Contributions & Earnings -- Individual Retirement Plans 5102(1-D)	$22,317,011
Pension Contributions & Earnings -- Partners & Sole Proprietors -- KEOGH Plans	$19,113,083
Exclusion of Miscellaneous Fringe Benefits 5102(1-D)	$10,213,875
Self-Employed Medical Insurance Premiums 5102(1-D)	$6,906,525
Employer-Provided Accident and Disability Benefits 5102(1-D)	$4,020,601
Excl Medical Care and TRICARE for Military Dependents, Retirees not in Medicare	$3,339,775
Employer-Provided Group Term Life Insurance Benefits 5102(1-D)	$2,814,784
Excl of Health Insurance for Military Retirees and Dependents in Medicare	$2,399,450
Exclusion of Damages on Account of Personal Physical Injuries or Physical Sickness	$2,075,200
Health Savings Accounts 5102(1-D)	$1,945,500
Exclusion of Certain Foster Care Payments 5102(1-D)	$1,134,875
Exclusion of Medicare Benefits -- Exclusion of Certain Subsidies to Employers with Prescription Drug Plans for Medicare Enrollees	$434,500
Credit for Employer-Provided Long-Term Care Benefits 5217-C	Up to $50,000

Attachment B

Some Workshop Remarks in re Taxation in Maine

September 26, 2011
Orlando E. Delogu
Emeritus Professor, University of Maine School of Law

Let me begin by expressing my appreciation to the Taxation Committee for inviting me to offer these comments/suggestions for improving the fairness and stability of Maine's state and local tax structure. In all of these comments I have endeavored to stay within the letter and spirit of the guiding principles the Committee promulgated at its September 7, 2011 meeting.

Second, I would note that the comments/suggestions made here are not exhaustive of the steps (some relatively minor) that could be taken, and that would move Maine's tax structure in the direction of the stated goals of the Committee. Time, however, does not permit all useful ideas to be examined. That said, the enumerated proposals presented here should be seen only as first steps that can/should be taken to improve Maine's overall tax structure..

1. **The Sales Tax:** Compared to other states, our general sales tax burden (at 5%) is relatively low (see attached Appendix 1); 45 states impose a general sales tax; 32 states impose a higher burden, only 13 are at 5% or below. However, I do not suggest raising the state sales tax rate at this point. **Instead, I would reduce the large (and increasing) number of sales tax exemptions. In addition, we should broaden our sales tax to reach a wider range of discretionary services. And finally, we should raise meal and accommodation taxes to at least the level of other New England States.** These steps would both stabilize, and raise our sales tax revenues. At the same time our sales tax would be made more progressive, and it would increase revenues gathered from visitors to the state, to offset the very real costs they give rise to. It is not necessary to, or likely that we will, press any of these sales tax adjustments to the point that Maine will become a leading sales tax state. But it is not unreasonable to be nearer the middle of the pack— to align our sales tax with what most other states are already doing. Maine residents and businesses will not suffer. On the contrary, they will gain as increased sales tax revenues take pressure off both the income and property tax.

2. **The Taxation of Internet Sales:** While we are on the topic of increasing sales tax revenues, it is time, past time, for Maine to join the majority of sales taxing states and formally adopt the Streamlined Sales and Use Tax Agreement. Twenty four states have already done so. Another ten or a dozen states (Maine among them) have introduced legislation or begun discussions to adopt the Agreement. Congress in the early 90's enacted an exemption from state sales taxation for internet sales when the whole idea of internet communication, information gathering, sales, was in its earliest stages— they rightly believed they were protecting an infant industry. They also saw the diverse complexity of sales tax laws within the states. The latter problem is being addressed by the states in the form of the Streamlined Sales Tax Agreement. And the infant industry rationale is no longer applicable. Internet sales is the most rapidly growing sector of consumer spending. In the second quarter of 2011 it accounted for $47.5 billion in sales, nearly 5% of all consumer spending. It has grown from less than 1% of consumer spending to the present level in less than a decade. No one believes this growth will not continue into the future.

In short, continued sales tax exemption of internet sales is no longer justified. The Agreement provides a more uniform, a more streamlined approach to sales taxation that can be readily applied by the thousands of e-commerce sellers. The infant industry rationale for exemption is history. Moreover states and local governments need the sales tax revenue that is now being lost. And finally, the unfairness of not taxing internet sales, when identical items being sold in shops on every main street in the nation are subject to sales taxation, is palpably unfair. It is an unfairness that internet sellers are exploiting. It is an unfairness that Maine cannot afford. **We should adopt the Streamlined Sales Tax Agreement adding our voice to the pressure on Congress to end internet sales tax exemption** (see attached Appendix 2).

3. **Income Taxation:** We should begin by noting that 41 states have some form of broad based income taxation; Maine's use of income taxation to raise state government revenues is below that of 27 of these states. Maine's total income tax revenue stream is reduced by a nearly thirty year decline in corporate income tax collections vis-a- vis individual income taxes. In the mid-70's corporate income taxes made up 32% of state income tax revenues; today the corporate share of state income taxes is only 10.5%. And income tax changes fashioned by the Legislature in 2011 (as they unfold over the next several years) will not only lower the state's income tax revenue stream (see attached Appendix 3), but position us further below national norms in the utilization of income taxation. Moreover, these tax changes, while reducing income tax burdens on poor and middle income taxpayers, provide large (and many would say unwarranted) tax savings to Maine's wealthiest citizens. These actions, combined with Maine's modest use of sales taxation, (already noted), will require painful budget cuts at the state level, and puts greater pressure on local property taxes to meet the rising costs of existing and needed government services, i.e., schools, roads, police, fire, health and welfare, essential regulatory agencies, etc. In short, state revenue losses arising from past and present sales and income tax policies are real— and it is foolish to believe that any of the recently enacted income tax provisions will be repealed or amended any time soon.

That said, the most that one can hope for is that the upcoming legislative session will not exacerbate the revenue loss problem by further reducing income taxes. With this in mind, it is my view that **the Governor's proposal to exempt all pension income from state income taxes is unwise in the extreme** (see attached Appendix 4). It will further reduce income tax revenues by an estimated $93 million, make the budgeting process even more difficult than it now is, and again, the lion's share of these tax reductions will accrue to the most wealthy pension recipients. **If this proposal is considered in any form, it should at the very least be targeted (as is our property tax relief circuit breaker) to very low income pensioners, and/or revenue losses should be fully offset by increasing other revenue streams** (curtailing some tax expenditures or increasing the sales tax are likely revenue sources).

4. **Tax Expenditures:** In January, 2009 Maine Revenue Services transmitted to the Taxation Committee a report estimating State Tax Expenditures for FY 2010– 2011. Some 257 separate expenditure items were identified and their impact on state revenues estimated. A fact to be kept in mind is that the aggregate annual level of these expenditures today approximates the aggregate annual level of state revenues gathered. In other words the revenue loss to the state is not small. The report makes two things clear: First, "Many tax expenditures are the equivalent of a governmental subsidy in which the foregone tax revenue is essentially a direct budget outlay to specific groups of taxpayers." And two, "All tax expenditure estimates in this report reflect revenue loss to the General Fund."[1] My comments should not be interpreted as an across the board attack or criticism of tax expenditures. On the contrary, many of these expenditures are

[1] See Maine State Tax Expenditure Report, 2010–2011, Section 1, at pgs. 1 and 2.

necessary, reasonable in amount, and fully defensible. But I do urge the Tax Committee, in this era of tax and budget cutting, to sit down with experts far more knowledgeable than myself and turn each of the reports 257 pages to examine whether a particular expenditure is still needed, whether it has accomplished the purposes for which it was established, whether it is an appropriate state undertaking, whether the current level of the expenditure is affordable, or should be capped or reduced in some manner. I am reminded of remarks by a former U.S. Senator engaged in parsing through federal tax expenditures: "... a million here, a million there, and pretty soon we are talking real money". Maine needs to take a similar fine tooth comb to its tax expenditures.

Given my recommendation for fine-tuning adjustments in Maine's tax expenditure programs I would offer two such adjustments which carry out the "fair, shared, and balanced" goals of the Tax Committee. The current budget calls for BETR reimbursements for the biennium to be reduced by 10%; it calls for circuit breaker reimbursements to be reduced by 20% (see attached Appendix 5). Since the largest share of BETR reimbursements go to wealthy corporations, whereas circuit breaker reimbursements by definition go to poor and middle income home-owners, **it does not seem unreasonable to reverse these levels of reimbursement reduction. Perhaps BETR reimbursement reductions should be increased to 25–30% to eliminate altogether reimbursement reductions in the circuit breaker program.** If "fair, shared, balanced" takes into account ability to pay as surely it must, changes along the lines suggested seem appropriate. They would have little effect on more affluent BETR recipients, and would be of considerable benefit to low and middle income homeowners. They take pressure off the property tax, and make our overall tax system somewhat more progressive. **At the very least, the two reimbursement reductions can/should be made equal, or nearly so**; this step would not affect the current budget— it would leave current estimated revenue increases where they are.

5. **Increasing Pressure on the Property Tax:** As noted above Maine's modest use of both sales and income taxation, coupled with recently enacted reductions in estate, individual income, AMT, and fuel taxes, not only requires painful budget cuts at the state level, but puts greater pressure on local property taxes (one of the more regressive forms of taxation) to meet the rising costs of essential government services. In a nutshell, state level revenue gathering, relative to total state and local government tax gathering, has declined for almost a decade and is projected to decline further. Local government tax gathering relying on the property tax (many would say over-relying) is increasing. In 2007, 37% of Maine's state and local revenues were derived from the property tax; today property taxes provide 43% of state and local revenues, and are projected to rise further. In 2007, only 10 states relied on this regressive tax as much, or more, than did Maine; today that number is undoubtedly much lower.[2] Were it not for "homestead" and "circuit breaker" property tax relief programs (both modestly funded and subject to fluctuation), the regressive character and overall burden of Maine's property tax would be worse than it is.

Given these realities, and the unlikely prospect that these revenue gathering trends will change anytime soon, there are some steps within the Committee's guidelines that could be taken immediately to reduce the regressivity of the property tax. For example, **"homestead" property**

[2] See Allen, *Maine Tax Incidence Study: A Distributional Analysis of Maine's State & Local Tax System* (2011) at pgs. 30 and 32; also *Who Pays: A Distributional Analysis of the Tax Systems in all 50 States,* Instit. on Taxation & Econ. Policy, 3rd ed. (2009).

tax relief could be limited to lower and middle-income families and/or to properties below, say $250,000; the revenue savings could either be used to increase the level of "homestead" property tax relief to those who qualify, or shifted to the "circuit breaker, property tax relief program. This would reduce slightly the burden on, and regressivity of, the property tax; moreover, it recognizes the fact that wealthy homeowners do not need property tax relief. Beyond this step, if the Committee guideline goal of fashioning tax changes, "exportable to nonresidents" is taken seriously, then **some of the sales tax changes noted above can/should be adopted, and could be earmarked to stabilize and expand "circuit breaker" property tax relief.** This would further reduce the burden and regressivity of the property tax.

But finally, real property tax relief in Maine is not possible unless/until local governments are given an alternative revenue stream. I would close this memo, and my remarks, by making the case for some form of local option taxation (see attached Appendix 6).

6. **Local Option Taxation:** Nationally, 43 states allow some form of local option taxation. 38 states allow local option sales taxation; 18 states allow local option income taxes; 13 states allow both— these states can't all be wrong. Of the seven states that have no local option tax,[3] five are in New England. I can find no rational reason to explain this geographic anomaly— it is an historic accident that needs correcting.

Given Maine's relatively low per capita personal income, and the large number of out-of-state visitors that yearly come to Maine, **a local option sales tax seems best suited to our needs.** The machinery for administering the sales tax at the state level of government and in shops/ businesses across the state is already in place. The choice of local option sales taxation comports with the Tax Committee's guidelines. It builds on long-standing local control and home rule principles, and it can be fashioned in a way that gives all municipalities (even those that do not adopt a local option tax) some share in the tax revenues generated. And finally, **a significant share of local option sales tax revenues can/should be earmarked for across the board property tax relief** in the enacting municipalities. A draft of such legislation (one certainly open to amendment) is appended to this memo (see attached Appendix 7).

fini

[3] Conn., Hawaii, Maine, Mass., New Hamp., R. I., and W. Va.

Appendix #1

Table 1: State and Local General Sales Tax Rates as of July 1, 2011

State	State Tax Rate	Average Local Tax Rate	Combined Rate	Rank
Alabama	4.00%	4.64%	8.64%	6
Alaska	None	1.74%	1.74%	46
Arizona	6.60%	2.52%	9.12%	2
Arkansas	6.00%	2.50%	8.50%	7
California (a)	7.25%	0.88%	8.13%	12
Colorado	2.90%	4.58%	7.48%	15
Connecticut	6.35%	None	6.35%	31
Delaware	None	None	None	47
Florida	6.00%	0.65%	6.65%	29
Georgia	4.00%	2.87%	6.87%	23
Hawaii	4.00%	0.35%	4.35%	45
Idaho	6.00%	0.02%	6.02%	35
Illinois	6.25%	2.02%	8.27%	9
Indiana	7.00%	None	7.00%	21
Iowa	6.00%	0.81%	6.81%	25
Kansas	6.30%	1.96%	8.26%	10
Kentucky	6.00%	None	6.00%	36
Louisiana	4.00%	4.84%	8.84%	3
Maine	5.00%	None	5.00%	43
Maryland	6.00%	None	6.00%	36
Massachusetts	6.25%	None	6.25%	33
Michigan	6.00%	None	6.00%	36
Minnesota	6.875%	0.30%	7.18%	17
Mississippi	7.00%	0.003%	7.00%	20
Missouri	4.225%	3.45%	7.67%	14

State	State Tax Rate	Average Local Tax Rate	Combined Rate	Rank
Montana	None	None	None	47
Nebraska	5.50%	1.27%	6.77%	27
Nevada	6.85%	1.08%	7.93%	13
New Hampshire	None	None	None	47
New Jersey	7.00%	0.03%	7.03%	19
New Mexico	5.125%	2.11%	7.23%	16
New York	4.00%	4.48%	8.48%	8
North Carolina	4.75%	2.10%	6.85%	24
North Dakota	5.00%	1.38%	6.38%	30
Ohio	5.50%	1.28%	6.78%	26
Oklahoma	4.50%	4.16%	8.66%	5
Oregon	None	None	None	47
Pennsylvania	6.00%	0.34%	6.34%	32
Rhode Island	7.00%	None	7.00%	21
South Carolina	6.00%	1.14%	7.14%	18
South Dakota	4.00%	1.81%	5.81%	40
Tennessee	7.00%	2.43%	9.43%	1
Texas	6.25%	1.89%	8.14%	11
Utah (a)	5.95%	0.73%	6.68%	28
Vermont	6.00%	0.14%	6.14%	34
Virginia (a)	5.00%	None	5.00%	43
Washington	6.50%	2.29%	8.79%	4
West Virginia	6.00%	None	6.00%	36
Wisconsin	5.00%	0.43%	5.43%	41
Wyoming	4.00%	1.34%	5.34%	42
D.C.	6.00%	-	6.00%	-

Appendix 2

The Portland Press Herald/ Saturday, September 24, 2011

State delays levies on online sales

In California, a bill is signed into law putting off new rules aimed at increasing revenue.

The Associated Press

SAN FRANCISCO — Gov. Jerry Brown signed legislation Friday that postpones new sales tax rules that would have affected online purchases in California, granting more time for traditional and online retailers to lobby Congress for a national standard on the high-stakes issue.

The bill, crafted as a compromise among Amazon.com, traditional retailers and California lawmakers searching for ways to raise revenue, delays until at least September 2012 online tax rules implemented as part of this year's state budget package.

Under the compromise, Amazon will drop a ballot referendum planned for next year to overturn the law passed earlier in the summer, a move that promised an ugly and expensive campaign fight between online and traditional retailers.

"When you get two threats, that gives you an opportunity to find a compromise," Brown said after he signed the bill at Gap Inc. offices in San Francisco. "Hopefully, (the bill) will set an example for our colleagues in Washington that they too can cooperate."

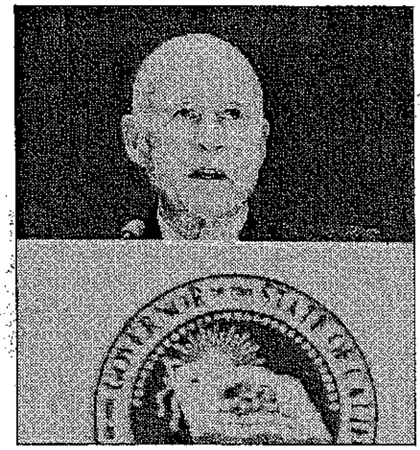
If that effort fails, Amazon has agreed to start collecting sales tax from California customers. The budget bill signed previously by Brown forced more online retailers to collect the state sales tax effective July 1. The move prompted Amazon to cut ties with some 25,000 affiliate businesses in California and spend more than $5 million to collect signatures for the ballot referendum.

The compromise bill will cost California an estimated $200 million in tax revenue during the current fiscal year but helps both sides avoid a costly election contest and the possibility of legal challenges.

State taxing authorities estimate that California loses at least $83 million a year in uncollected state and local use tax attributed to Amazon's sales.

Under the deal, the retailing giant will rekindle its relationship with its California affiliates and has promised to create at least 10,000 full-time jobs and hire 25,000 seasonal employees in the state by the end of 2015.

At the bill signing, Amazon's vice president of global public policy, Paul Misener, said the company would bring $500 million in investment to California over the next several years, mainly in the form of massive distribution centers.



The Associated Press

Gov. Jerry Brown, D-Calif., talks in San Francisco Friday about a bill requiring Amazon and other Internet retailers to collect sales taxes starting September 2012.

INTERNET RETAILERS AND TAXES

A 1992 U.S. Supreme Court ruling in a case involving a mail-order retailer says a business must collect state tax from customers only if it has a physical presence in the state where they live, like a retail store. Several states reacted by trying to broaden the definition of physical presence.

At least six states – Arkansas, Connecticut, Illinois, New York, North Carolina and Rhode Island – had done so by 2010 while nine more, including California, launched similar legislative attempts this year.

California's version, under the bill signed earlier this summer, imposed tax-collection duties on a company if it used marketing affiliates in the state to refer customers or if it had sister companies in California, such as Amazon's Silicon Valley company that developed the Kindle electronic book reader. Internet retailers such as Amazon and Overstock.com said that violated the Supreme Court ruling.

Under the compromise signed into law Friday, Amazon does not have to collect sales taxes until September 2012. But if Congress, before then, enacts a federal law prescribing how online retailers should be taxed, that would supersede California law.

Sources: The Associated Press, www.taxfoundation.org

Appendix 3

From: "Allen, Michael J." <Michael.J.Allen@maine.gov>
To: delogu@usm.maine.edu
Date: 9/23/2011 3:44 PM
Subject: Tax package analysis
Attachments: AFA_Final.xls

Here is the final package of information we gave OFPR on the tax cuts and below is a summary of when certain taxpayers become taxable. Let me know if you have any questions.

Here is the information on the income cutoffs below which a taxpayer does not owe tax.

* After the tax cuts, a single filer with Maine Adjusted Gross Income (MAGI) below $15,000, a married filer with no kids and MAGI below $28,000, and a married filer with two dependent children and MAGI below $35,700 do not pay income taxes in 2013.

* Under the previous law, a single filer with MAGI below $8,850, a married filer with no kids and MAGI below $15,700, and a married filer with two dependent children and MAGI below $21,400 do not pay income taxes in 2013.

* In 2013, the personal exemption increases from $2,850 to $3,850 and the standard deduction is unchanged.

* These calculations assume that the filer elects the standard deduction. If the filer elected itemized deductions, then the income cutoffs would be higher. The calculations are based on our forecast of what the standard deduction, tax brackets, and the personal exemption (in the tax cut scenario) will be in 2013.

2011 Individual Income Tax Changes

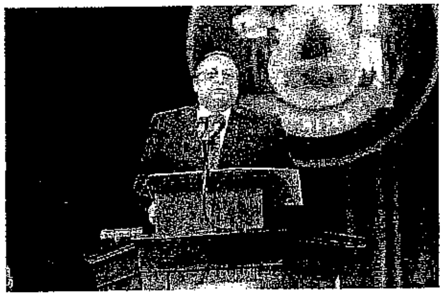
First effective tax year:		2011-12	2012-13	2013-14	2014-15
2013	Change 2% rate to 0%, 4.5% and 7% rates to 6.5%	0	-13,128,000	-33,368,000	-34,658,000
2013	Reduce top rate to 7.95%	0	-23,876,000	-60,922,000	-63,750,000
2013	Conform to federal personal exemption	0	-23,992,000	-61,468,000	-66,460,000
2012	Conform to federal standard deduction	-6,940,000	-10,410,000	0	0
2012	Eliminate tax additions	-2,806,000	-6,428,000	-8,066,000	-7,962,000
	Interaction effects	-4,000	-954,000	-2,554,000	-3,114,000
	Total Revenue Losses	-9,750,000	-78,788,000	-166,378,000	-175,944,000

Appendix #4

Maine Governor Proposes Regressive Tax Break for Seniors

August 25, 2011 2:21 PM | Permalink | SHARE

Hot off of signing an expensive and unfair $400 million tax cut for Mainers in June, Maine Governor Paul LePage is now promoting a new regressive tax break targeted to older adults.



He would like for state lawmakers to fully exempt all pension income from the state income tax, a move he thinks will help fixed-income older adults and bring wealthy retirees to the state. While most states with broad-based personal income taxes, including Maine, allow some sort of pension income exclusion, only Illinois, Mississippi and Pennsylvania fully exempt it from taxation.

Maine currently allows retirees to deduct a maximum of $6,000 per spouse of their pension income less Social Security benefits received. In other words, older Mainers with annual Social Security income over $6,000 ($12,000 if married) do not currently benefit from the pension deduction.

LePage's proposal is a poorly-targeted and unnecessarily expensive tax break that will make Maine's tax system less sustainable and less fair.

As a newly released ITEP brief points out, state income tax breaks for older adults, especially those that exempt all pension income, typically reserve the lion's share of their benefits for better-off elderly taxpayers. Such poorly targeted tax breaks shift the cost of funding public services towards non-elderly taxpayers, many of whom are less well-off than the seniors benefiting from the tax breaks.

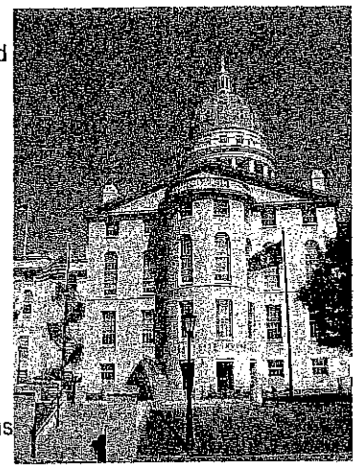
Also, long-term demographic changes threaten to make such a pension income tax break unaffordable in the long run. Older adults are the fastest growing age demographic in the country. According to the US Census, between 2000 and 2010, the US population of adults 55 and older grew by more than 30 percent while the population of those under 55 grew only by 4 percent. This change was even starker in Maine where the 55 and older population grew by 32 percent while the population under 55 actually *shrank* by 4.5 percent. Over time, this demographic shift will mean that a shrinking pool of workers will be forced to fund tax breaks for an expanding pool of retirees — heightening the need to target these tax breaks appropriately in order to minimize their cost.

Maine Revenue Services has estimated that this special tax break for older adults would cost the state $93 million. Given that Maine is still climbing out of a budget hole ripped by the ongoing recession, services would have to be cut or other taxes would have to be increased to pay for LePage's proposal.

Maine lawmakers would be wise to reject LePage's proposal and should either stick to their current pension income deduction or consider a break which is better targeted to the state's neediest older adults.

Maine's New Budget Gives to the Rich and Takes from the Poor, Literally

June 22, 2011 3:03 PM | Permalink | SHARE



Maine Governor Paul LePage signed a $6.1 billion two-year budget into law this week. The budget includes reductions to the state's personal income and estate taxes in addition to other tax changes that will cost the state $153 million in FY12-13 and $400 million in FY14-15.

The new tax changes are both expensive (and force spending cuts elsewhere) and incredibly unfair. A reduction in the top income tax rate and increase in the state estate tax exemption primarily benefit the state's wealthiest residents. According to an Institute on Taxation and Economic Policy analysis conducted for the Maine Center for Economic Policy (MECEP), more than half of the benefits of the new personal income tax reductions will go to the wealthiest 20 percent of Maine taxpayers.

Not only do the richest Mainers benefit most from this budget, 75,000 low, moderate and middle income families are likely see their taxes increase by as much as $400 annually because of cuts to the state's property tax circuit breaker program that protects homeowners from paying too large a portion of their family income in local property taxes. (See our fact sheet on circuit breakers.) Whatever modest tax reductions these moderate and low income filers get from the new personal income tax cuts will be offset by the increase they'll face in property taxes.

The major tax changes enacted in Maine this session are:

- A reduction of the top marginal personal income tax rate from 8.5 to 7.95 percent;
- A restructuring of the personal income tax rates, collapsing from four to three brackets replacing current rates with 0, 6.5, and 7.95 percent;
- Increasing the standard deduction and personal exemption to the federal amounts;
- Eliminating the state's alternative minimum tax, which is designed to ensure that upper-income taxpayers pay at least some income tax;

* Raising the estate tax exemption threshold from $1 million to $2 million;
* Limiting the value of the property tax circuit breaker to 80 percent of the total benefit;
* Eliminating the annual indexing of the state's motor fuels tax to inflation, a move that would make the gas tax less sustainable over time.

Appendix 5

Other Tax Provisions in Budget

- Continues current biennium reduction in BETR reimbursement; 10% reduction for FY12/13 biennium
- Estimated increase in revenue of $9.8 million in biennium
- Continues current biennium reduction in circuit breaker reimbursement; 20% reduction (General Program only) for FY12/13 biennium
- Estimated increase in revenue of $22.3 million in biennium

This is pg. 11 of a short report, *Tax Proposals in the Governor's FY 12/13 Biennial Budget*, prepared by Michael J. Allen, Director of Economic Research, Maine Revenue Service

Appendix 6

NCSL
National Conference of State Legislatures

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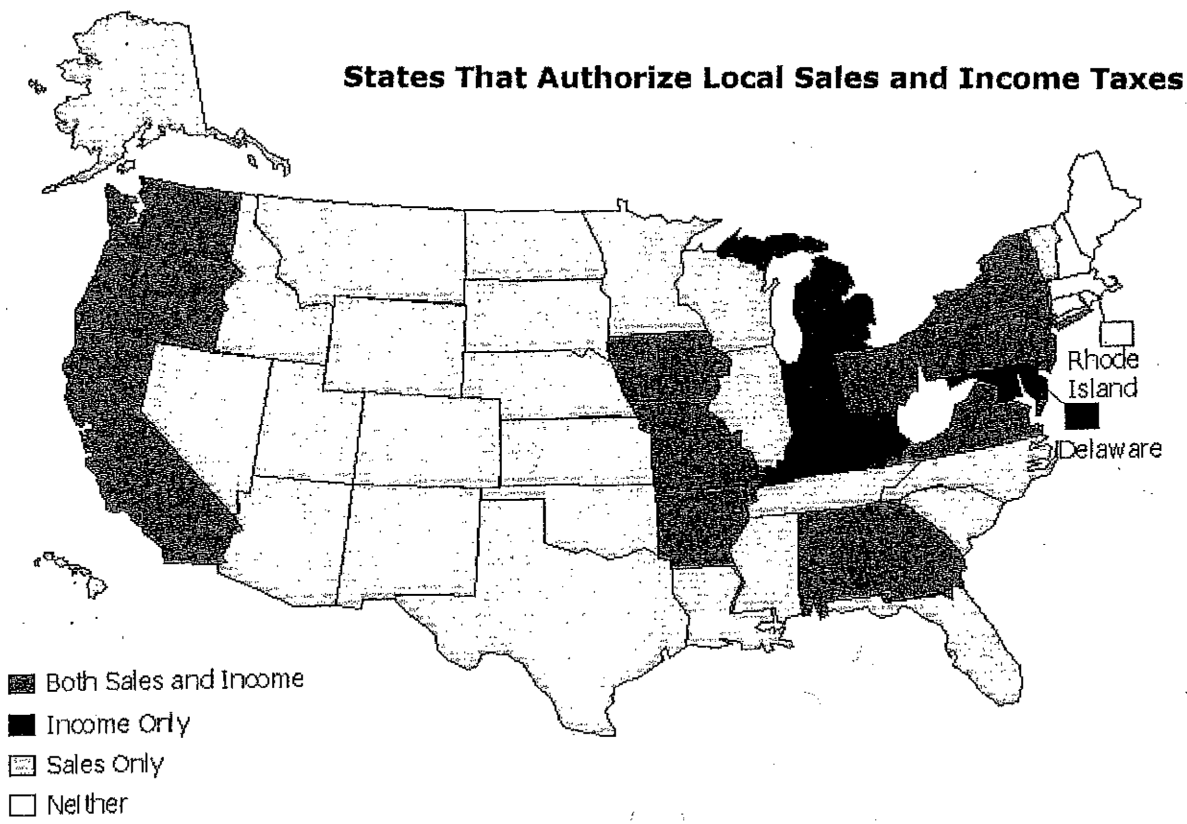
Issues & Research » Budget & Tax » Local Option Taxes Go 12632 Share Comment

Local Option Taxes

Local option taxes are taxes levied with state approval by municipalities, county, and special district governments including school districts.

- Forty-three states authorize local option sales and/or income taxes
- Three quarters of states (38) permit local sales taxes (12 percent of local tax revenue)
- One third of states (18) permit local income and payroll taxes (5 percent of local tax revenue)
- Other examples: tourism (lodging, car rental, etc.), tobacco and alcoholic beverage excise, real estate transfer

States That Authorize Local Sales and Income Taxes



Source: National Conference of State Legislatures, 2006.

States that Authorize Local Sales and Income Taxes

States	Local Sales Taxes	Local Income Taxes
Alabama	x	x*
Alaska	x	
Arizona	x*	
Arkansas	x	x*
California	x	x*
Colorado	x	
Connecticut		
Delaware		x*
Florida	x	
Georgia	x	x
Hawaii		
Idaho	x*	
Illinois	x	
Indiana		x
Iowa	x	x**
Kansas	x	
Kentucky		x*,**
Louisiana	x	
Maine		
Maryland		x
Massachusetts		
Michigan		x
Minnesota	x	
Mississippi	x*	
Missouri	x	x*
Montana	x*	
Nebraska	x	
Nevada	x	
New Hampshire		
New Jersey	x*	x*
New Mexico	x	
New York	x	x*
North Carolina	x	
North Dakota	x*	

Ohio	x*	x
Oklahoma	x	
Oregon	x	x*
Pennsylvania	x	x**
Rhode Island		
South Carolina	x	
South Dakota	x	
Tennessee	x	
Texas	x	
Utah	x	
Vermont	x	
Virginia	x	x
Washington	x	x
West Virginia		
Wisconsin	x	
Wyoming	x	
Totals:	**38**	**18**

*Limits may apply. Examples: Certain cities; cities or counties of a certain size; resort towns; home rule cities.
**Includes school district or school board taxes.

Sources: Commerce Clearing House *State Tax Guide*, 2003; Minnesota House Research Department, 2005; National Conference of State Legislatures: *A Guide to Local Option Taxes*, 1997; telephone survey, 2003; *A Guide to Property Taxes: The Role of Property Taxes in State and Local Finances*, 2004; on-line research, 2006.

Appendix 7

DRAFT **DRAFT** **DRAFT**

To: Taxation Committee, 125th Maine Legislature
From: O. E. Delogu, Emeritus Professor of Law
Date: September 26, 2011
Subject: **Proposed Legislation for a Municipal Local Option Sales Tax**

An Act to Allow Municipalities to Enact a 1 % Local Option Sales Tax

Be it enacted by the People of the State of Maine as follows:

Part 1. Intent.

It is the intent of this Act to provide municipal governments an alternative stream of revenue, a local option sales tax, in addition to the property tax, and other non-tax revenues presently available to them. As structured, this Act would lower property taxes in all municipalities by channeling a portion of local option sales tax revenues to meet both municipal and county operating budgets. In those municipalities that approve the local option tax, a portion of these alternative revenue streams could also be utilized to establish a municipal property tax stabilization (rainy day) fund or to bear, in whole or in part, the municipal share of regionally beneficial capital improvement projects.

Part 2. A new provision, tit. 36 MRSA, Chapter 214, §1830, creating a municipal 1 % local option sales tax to facilitate property tax relief, municipal budget and capital expenditure commitments, and municipal commitments to county operating budgets is enacted to read as follows:

§ 1830. Municipal Local Option Sales Taxation.

1. Findings and purposes.

A. It is widely recognized that Maine's overall tax structure is unbalanced; local property taxation is over-used. On average Maine property tax burdens are among the highest in the nation. A 1% local option sales tax would reduce this over-dependence. In municipalities that enacted such a tax, property taxes would be reduced or stabilized, pursuant to the provisions in subsection 5.

B. A factor in rising municipal property taxes is the growing cost of county operating budgets which are passed on to all municipalities via the property tax. A 1% local option sales tax, the net annual proceeds of which are shared, two/thirds going to the enacting municipality, and one/third going to the county in which the enacting municipality is located, will enable property taxes to be reduced or stabilized in all Maine municipalities, pursuant to the provisions in subsections 4 and 5.

C. It is also recognized that Maine's service center municipalities bear an even higher property tax burden than the average municipality–they are the highest of the high. Two factors contribute to this: first, tax exempt properties are concentrated in these centers; and second, service center municipalities, relying almost exclusively on the property tax, are called upon to provide a range of facilities and services that benefit both their own citizens and citizens in outlying towns–but they get no tax contribution from these outlying towns. A 1% local option sale tax would correct, in part, for both of these factors.

D. It is also a fact that Maine hosts millions of visitors a year, visitors who contribute to the economy of the state, but who contribute little to municipal revenues, even though it is the municipal level of government that presently must bear the cost, relying almost exclusively on the property tax, of providing police, fire, sewer, water, road improvement, and other services that these visitors use and rely upon. A 1% local option sales tax is one way of requiring these visitors to contribute something to offset the costs they impose on Maine municipalities.

2. Definitions. As used in this section, unless the context otherwise indicates, the terms noted are defined as follows:

A. **Eligible Municipality** means any charter city or organized municipal township. Subsidiary units of government, i.e., unorganized townships, villages, special districts, school districts, counties, etc. may not enact a local option sales tax pursuant to these provisions.

B. **Local Option Sales Tax Net Revenues** means that revenue remaining after the deduction of 2% of gross local option sales tax revenues, pursuant to subsection 3. C., for state administrative costs. The balance or net local option saless tax revenues shall be available for distribution, pursuant to and in accordance with subsection 3. D.

C. **Sales Tax Base** means and includes only those items subject to sales taxation under Maine law as defined in tit. 36 MRSA §§1751 et seq., and all subsequent amendments thereto. An eligible municipality that adopts a local option sales tax pursuant to the provisions of this legislation may not alter, expand, or contract either the range of items subject to sales taxation, or exempt from such taxation, under Maine law.

D. **Single Transaction Limitation** means, and would allow, any eligible municipality that adopts a local option sales tax pursuant to the provisions of this legislation to set an upper limit of $100.on a local sales tax obligation for any single transaction subject to the tax.

3. Authorization to Impose a 1% Local Option Sales Tax.

A. In light of the findings and purposes outlined in subsection 1, and to broaden the tax revenue base of Maine counties and municipalities, eligible municipalities, following the provisions outlined below, are hereby and henceforth authorized to impose a 1% local option sales tax on those items that are part of the state's sales tax base and thus subject to state sales taxation. A municipality that adopts a local option sales tax may impose a single transaction limitation as defined is subsection 2. D.

B. In municipalities that adopt a local option sales tax pursuant to the provisions of this legislation, those merchants and businesses that under present Maine law are charged with collecting state sales taxes shall collect and remit to the state treasurer the local option portion of the combined state and local sales tax collection. These remittances to the state should be made at the same time and manner as state sales taxes are presently remitted.

C. The state treasurer in order to cover its administrative costs, i.e., printing tax tables, calculating and remitting county and municipal shares, etc. shall withhold 2% of the statewide total of revenues generated by municipal local option sales taxation undertaken pursuant to this legislation.

D. After the administrative cost deduction authorized in paragraph C. of this subsection, the state treasurer shall on a monthly basis remit to each enacting municipality two/thirds of the remaining–the net revenues generated from a 1% local option sales tax. The remaining one/third of net revenues generated from a 1% local option sales tax shall be remitted, also on a monthly basis, to the county in which the enacting municipality is located.

E. A local option sales tax must first be adopted by the governing body of an eligible municipality in the same manner required for the passage of a local ordinance. This must occur at least 30 days prior to voter ratification of the local option sales tax. Voter ratification, and thus, final adoption of a local option sales tax, shall only be undertaken at the time of, and in conjunction with, November general elections. If the voters of an eligible municipality approve a local option sales tax, it shall go into effect on January 1st, of the next year.

F. An enacted local option sales tax may be repealed by exercise of citizen referendum procedures or by the governing body of the adopting municipality. A governing body repeal must follow the procedures for repeal of a local ordinance, and is subject to voter ratification. The governing body's actions of repeal must be completed at least 30 days prior to voter ratification of the repeal. Whether triggered by citizen referendum procedures, or by actions of the governing body, voter ratifications seeking repeal of an enacted local option sales tax must be undertaken at the time of, and in conjunction with, a November election. A successful repealing vote becomes effective on January 1st of the next year.

4. Disposition of the County Share of Proceeds from a 1% Local Option Sales Tax.

A. Each county's share, one/third of local option sales tax net revenues generated in that county, shall be a matter of public record and held in a segregated account by the receiving county. The county shall proceed as it now does to develop its annual current services budget, but after determining the total amount of that budget that will be passed through to municipalities in the County, that budgeted amount will be reduced by the funds held in the segregated account. This will reduce, the pro-rata amount that each municipality in the county would otherwise be compelled to pay, via the property tax, towards the maintenance of county government.

B. Segregated account funds generated by subsection 4. A., the county share of net revenues generated within the county from local option sales taxes, shall annually and only be utilized by the county to reduce the pro-rata property tax assessment that would otherwise be required from each municipality within the county.

5. Disposition of the Municipal Share of Proceeds from a 1% Local Option Sales Tax.

A. In municipalities that adopt a local option sales tax, the municipal share, two/thirds of local option sales tax net revenues generated in that municipality, shall be a matter of public record and held in a segregated account by the receiving municipality. The municipality, relying on all other revenue streams available to it, shall proceed as it now does to develop its annual current services budget, an appropriations resolve, a projected property tax levy, and a property tax rate per $1,000 of assessed valuation.

B. At this point, no less than 50% of the funds held in the segregated account established pursuant to subsection 5. A. must be utilized in each budget year to lower the projected property tax levy and tax rate that was calculated pursuant to subsection 5. A. This will reduce the property tax obligation that every taxpayer in the municipality would otherwise have to pay to meet the burdens imposed by the current services budget.

C. In municipalities that adopt a local option sales tax, funds held in a subsection 5. A. segregated account beyond those required to be expended pursuant to subsection 5. B. may in any given year be utilized in any of three ways:

1. Beyond the provisions of subsection 5. B., an amount between 50% and 100% of segregated account funds, may be allocated to further lower the property tax obligation of municipal taxpayers in any given year, and/or;

2. Beyond the provisions of subsection 5. B., an amount between 50% and 100% of segregated account funds may be retained in the account as a rainy day/ property tax relief stabilization fund to offset in future fiscal years either higher than expected increases in the municipal current services budget, and/or lower than expected local option sales tax net revenue accumulations, and/or;

3. Beyond the provisions of subsection 5. B., an amount between 50% and 100% of segregated account funds may be utilized to fund, in whole or in part, the municipal share of regionally beneficial capital improvement projects.

Subsections 5.A. B.and C insures that property tax relief will, to the greatest degree possible, remain the primary purpose of local option sales taxation, but at the same time allows the municipality flexibility to utilize this revenue stream to meet current services budget needs, to provide added property tax relief or property tax stabilization, and/or to fund regionally beneficial capital improvements.

6. The Relationship of This Act to State Revenue Sharing, State Aid Monies, and/or Statutes Limiting County and Municipal Budgeting Processes.

A. Nothing in this legislation repeals, alters, or reduces any provision of tit. 30-A MRSA §5681, authorizing state-municipal revenue sharing. The revenues provided to municipalities that adopt a local option sales tax pursuant to the provisions of this legislation are intended to be complementary, an addition to, funds provided for general municipal services under §5681.

B. Nothing in this legislation repeals, alters, or reduces any other provision of state law providing state aid for schools, roads, welfare assistance, jails, etc. The revenues provided to municipalities that adopt a local option sales tax, and to county governments, pursuant to the provisions of this legislation are intended to be complementary, an addition to, any, and all presently existing state aid and/or financial assistance monies.

C. Nothing in this legislation repeals or alters any statutorily imposed municipal or county budgeting limitations, such as, but not limited to, tit. 30-A MRSA §5721-A et seq., imposing such limitations on municipalities, and tit. 30-A MRSA §706-A, imposing such limitation on counties.

D. Given the findings and purposes achieved by a local option sales tax, noted in subsection 1, it is urged that subsequent legislative enactments not penalize municipal governments that enact a local option sales tax, and/or county governments that pursuant to this legislation indirectly benefit from local option taxation, by enacting offsetting legislation that reduces either state revenue sharing funds and/or state aid monies now available to municipalities and counties.

SUMMARY

This legislation allows Maine municipalities to adopt a local option sales tax. It makes clear that such taxes would serve all Maine municipalities as well as county governments. The legislation makes clear that these taxes may not alter the provisions of Maine's sales tax laws in any way. The legislation establishes procedures for the adoption, and repeal, of a local option sales tax. It also makes clear that the revenues derived from a local option sales tax are only to be used at the county level to lower current service budget property tax levies imposed on municipalities within the county, and at the municipal level are to be used primarily to reduce property taxes, and secondarily to fund current services, create added property tax relief or a property tax stabilization fund, and/or to fund the municipal share of regionally beneficial capital projects. Finally, the legislation makes clear that revenues derived from the local option sales tax are to be viewed as complementary, an addition to any and all existing county and municipal revenue streams. Cuts in state revenue sharing and/or other state financial aid commitments to municipal and county governments are precluded.