

**SENATE**

**JOSEPH C. PERRY**, DISTRICT 32, CHAIR  
**LAWRENCE S. BLISS**, DISTRICT 7  
**RICHARD A. NASS**, DISTRICT 2

---

**ELIZABETH COOPER**, LEGISLATIVE ANALYST  
**BETH ARSENAULT**, COMMITTEE CLERK



**HOUSE**

**THOMAS R. WATSON**, BATH, CHAIR  
**DONALD E. PILON**, SACO  
**MARK E. BRYANT**, WINDHAM  
**LINDA M. VALENTINO**, SACO  
**PATSY CROCKETT**, AUGUSTA  
**LAWRENCE SIROIS**, TURNER  
**ELSPETH FLEMINGS**, BAR HARBOR  
**KATHLEEN D. CHASE**, WELLS  
**L. GARY KNIGHT**, LIVERMORE FALLS  
**BRIAN D. LANGLEY**, ELLSWORTH

**STATE OF MAINE**

**ONE HUNDRED AND TWENTY-FOURTH LEGISLATURE**

**COMMITTEE ON TAXATION**

**DATE:** February 4, 2010

**TO:** Senator G. William Diamond, Senate Chair  
Representative Emily Cain, House Chair  
Members, Joint Standing Committee on Appropriations and Financial Affairs

**FROM:** Senator Joseph Perry, Senate Chair  
Representative Thomas Watson, House Chair  
Members, Joint Standing Committee on Taxation

**RE:** Committee recommendations with regard to LD 1671, An Act Making Supplemental Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2010 and June 30, 2011

Yesterday, the Joint Standing Committee on Taxation voted on the language in Part JJ and Part KK, which were the only outstanding issues from our budget recommendations included in the memorandum dated January 29, 2010. The Committee voted unanimously to reject the language in Part JJ, which is an additional cut to revenue sharing, as well as the language in Part KK proposing a change in eligibility for the circuitbreaker program. We have attached the required report back pages as a record of this final vote.

Recognizing that our rejection of these items creates a General Fund budget gap, we explored several alternative proposals. The Taxation Committee spent a significant amount of time reviewing tax exemptions, credits and reimbursements (collectively referred to as tax expenditures) in an attempt to identify revenue. The Committee held multiple meetings during the interim to gather detailed information for decision making. We reviewed many reports specific to Maine's tax expenditures for economic development as well as literature related to evaluation methods that included information from other states and independent research such as the Federal Reserve Bank of Boston's report entitled *State Business Tax Incentives*. We worked extensively with Maine Revenue Services, met with the Department of Community and Economic Development and had the director of the Office of Program Evaluation & Government Accountability

(OPEGA) come to one of our meetings. We had a subcommittee that investigated specific issues related to specific tax expenditures and reported back to the Committee several times. Ultimately, we developed the attached list of 10 tax expenditures that we discussed as possible means of filling the budget gap. However, we only identified one to include as a budget recommendation (modify the fuel and electricity sales tax exemption for manufacturers) and the Committee divided on this issue.

We discussed many other proposals as well. One proposal that has the support of the full Committee is the attached language related to the circuitbreaker program, which will create savings of \$175,000 annually by excluding the amount of abatements for poverty or inability to pay from the property tax reimbursement. Unfortunately, we did not reach consensus on any of the other proposed solutions. Therefore, we offer majority and minority reports for your consideration.

If the Joint Standing Committee on Appropriations and Financial Affairs supports any of these options we will be happy to work on any language needed to implement a particular initiative. Also, we respectfully request that you hold joint public hearings with us on any of the issues you decide should be considered as part of this budget.

### **Majority Report**

Members in support of the majority report estimate that the initiatives listed below would generate in the range of \$34 million to \$48 million annually. Members supporting this report include: Senator Perry, Representative Watson, Representative Pilon, Representative Crockett, Representative Valentino, Representative Flemings, Representative Sirois and Representative Bryant. As noted above, the majority report also includes the attached language for the circuitbreaker program.

1. Reduce the fuel and electricity sales tax exemption for manufacturers from 95% to 85%. Based on a revenue projection of \$46.6 million for FY 2011, this proposal would generate \$4.66 million.
2. Increase the filing fee on Limited Liability Corporations (LLCs) and S-corporations from \$85 to \$250. Based on the 23,387 LLCs and S-corps currently doing business in Maine, this would generate approximately \$3.9 million.
3. Consider increasing the excise tax on tobacco products and alcohol. We have received estimates ranging from \$26 million to \$40 million in revenue that could be raised on tobacco products alone. However, we realize there are many variables involved in these calculations and, thus, we would defer to you on the details if you choose to move forward with this proposal.

### **Minority Report**

Members in support of the minority report estimate that the initiatives listed below would generate at least \$43 million annually. Members supporting this report include: Senator Nass, Representative Chase, Representative Knight and Representative Langley. As noted above, the minority report also includes the attached language for the circuitbreaker program.

1. Reduce the budget of Maine Revenue Services by 15%. Maine Revenue Services estimates that this cut would represent a little over \$5 million.
2. Consider closing Maine Revenue Services' Houlton office. We have estimates of the cost of operating the Houlton office that range from \$600,000 to \$850,000. Senator Nass would like the record to note that he does not support this initiative.
3. Cut 1,000 positions across state government; exclude cuts in Maine Revenue Services staff if the initiative to cut their budget by 15% moves forward. Based on an average annual salary of \$37,000 (an estimate provided by MSEA-SEIU at our meeting yesterday), we calculate that at least \$37 million in annual savings could be achieved. We recognize that this is a rough estimate, but should you be interested in moving forward with this proposal we will work with you to develop solid figures.
4. Consider implementing the ideas for programmatic changes to the General Assistance program that were suggested by Maine Municipal Association that include adopting accountability standards, creating a lifetime limit for non-categorical applicants and recognize LI-HEAP assistance in the calculation of a household's unmet need. Details of this proposal can be found on page 2 of the attached list of municipal mandates supplied by Maine Municipal Association.

In addition to the ideas presented above, the Taxation Committee also discussed municipal service fees as proposed in LD 1290 during the 1<sup>st</sup> Regular Session as well as possible sunset and clawback language for tax expenditures. Since these items do not directly relate to the budget, we expect to continue these discussions in the context of other bills before the Taxation Committee. Also, we discussed the attached list of municipal mandates identified by Maine Municipal Association. Although none of the items are within our jurisdiction, we are concerned about the impact State budget cuts have had on municipalities and encourage other policy committees to review this list.

Thank you for your consideration of our recommendations and please let us know if you have questions or need additional information.