SUMMARY
SUBCOMMITTEE MEETING -- November 9, 2011
Room 127 - State House, Augusta

Background and Overview

The Joint Standing Committee on Taxation's 3-member subcommittee held its last meeting on November 9, 2011 at 9:00 a.m. This was part of a series of 5 small group discussions including participants such as certified public accountants, economists, tax attorneys, leaders in business and higher education, representatives of chambers of commerce and members of the economic development community. The first 4 discussions were held on September 26 and October 12, 2011. Each discussion opened with introductions and a brief history of recent tax reform efforts (provided by Senator Woodbury) and included time for opening thoughts, discussion and a wrap-up.

This summary provides highlights of the November 9th discussion and is not intended to be meeting minutes.

Subcommittee Members

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

8:30 a.m.

Small Group Session #1†

- Christopher J. Hall, Portland Regional Chamber of Commerce
- Garrett Martin, Maine Center for Economic Policy
- J. Scott Moody, Maine Heritage Foundation
- John Porter, Bangor Chamber of Commerce

Opening Thoughts

Christopher J. Hall – Mr. Hall suggested that 3 parts of the bigger issue must be addressed simultaneously: 1) the structure of revenues, 2) spending (noting tax limitations) and 3) the structure of government. He referred to the comments/study by Alan Caron‡ and suggested the way to create meaningful change is through comprehensive reform. In addition, he emphasized that rebuilding public trust is key to any reform effort. There is no silver bullet and that includes reforming taxation of pensions.

John Porter – Mr. Porter noted the long-term issues of high income taxes, a volatile revenue stream and a narrow tax base. He cautioned against changes that hinder business growth and offered a reminder that big policy changes in the State take time. He suggested that while there may be a grand bargain the political parties could strike, the greater political climate may not be ripe for change. The recent attempt at tax reform was particularly difficult for chamber members

* absent meeting of Nov 9th
† Participants' biographical information is available at: www.maine.gov/legis/ofpr/taxation_committee/interim_schedule/2011_11_09_bios.pdf.
‡ Study referenced is: *Reinventing Maine Government: How Mainers Can Shape a Sustainable Government and a New Prosperity* by Alan Caron and David Osborne. (September 22, 2010)

as some supported lower income taxes and others opposed the changes to the sales tax that were included in the package.

Scott Moody – provided prepared remarks (Attachment A) and suggested "pruning the tax tree" starting with the sales tax. He provided a brief history of taxation noting that as tax systems evolved Europe went to a value added tax and the United States imposed a retail sales tax. He emphasized that the effects of taxation need to be analyzed over decades and indicated that he recently completed a study of estimates of sales lost to New Hampshire. He suggested that legislators consider consolidating business taxes into a business enterprise tax (BET) and eliminate the other state business taxes including corporate income taxes, Schedules C, D, E and F and the estate tax. He added that the BET also can be filed on a short form and provided a copy of the New Hampshire form attached to his remarks.

Garrett Martin – provided prepared remarks (Attachment B). He suggested maintaining a progressive tax structure and noted revenue stability is needed for adequate revenue during economic downturns recognizing that government provides essential services during these times. He contended that the biennial budget included "tax reform" with significant implications for revenue adequacy and the progressivity of the tax system. He supports adjusting the income brackets thresholds and making the earned income tax credit (ETIC) refundable. He suggested that the Circuitbreaker can be simplified and noted that it addresses progressivity by helping those with high property tax and lower incomes. Other recommendations included expanding the sales tax base and adjusting the rate, raising the tax on lodging and short term auto rental and increasing transparency and accountability for tax expenditures.

<u>Group Discussion</u>

The group had significant discussion of process, the relation between government spending and taxation, the role of taxation in the economy and the challenges inherent in tax reform.

Process – Group members talked about engaging the public, including a broader spectrum residents than just the business community and advocates for certain groups. There was mention of using a ratification process and a great deal of discussion about the need to have conversations about fundamental role of government that includes spending side as well as revenue side. There was discussion of the "tax reform" that was in budget and it was suggested that every budget includes opportunities for tax reform. Some group members stressed the importance of having buy-in from leadership on any proposal including support from the executive branch. Dynamic scoring was suggested as part of information needed to better understand tax issues.

Sales tax – Group members had limited discussion of sales tax. However, one member advocated the elimination of retail sales tax in favor of business enterprise tax. The impact that sales tax and property tax have on people who live on a fixed income was mentioned.

Income tax – There was limited discussion of specifics related to income taxes. There was some discussion of simplification including conformity with the federal code, however one member suggest there may be areas when nonconforming results in lower taxes and in those cases nonconformity may be a good trade off. Pension taxation was briefly discussion in anticipation of the Governor's proposal in the supplemental budget.

Property tax – During the discussion of property taxes it was noted that property taxes vary greatly geographically and this impacts public support for reform in this area. The school funding formula and the role of municipal spending related to property taxes was discussed. There was a suggestion that there may be opportunities in municipal revenue sharing to further address property tax. Circuitbreaker was also mentioned as an area that could be restored and better promoted to provide property tax relief.

Business Enterprise Tax – There was a suggestion for a business enterprise tax and some members expressed interested in exploring this idea further.

Wrap–up – this high-level discussion concluded with encouragement to keep the dialogue open, recognize the political realities and keep in mind that tax reform is happening through the budget process.

10:30 a.m. Adjourn

This subcommittee was followed by a meeting of the Joint Standing Committee on Taxation.

published: 11/30/11

Attachment A

Joint Standing Committee on Taxation
Subcommittee Meeting – November 9, 2011

Remarks of J. Scott Moody
Vice-President of Policy and Chief Economist
The Maine Heritage Policy Center

Thank you Senator Woodbury and Representatives Knight and Pilon for the opportunity to discuss various tax reform options for Maine. Unfortunately, there are so many problems with Maine's tax code that it is almost impossible to know where to even begin which points to the root of the problem—there are simply too many types of taxes.

So, first and foremost, Maine needs to start pruning the tax tree. I would suggest starting with the one tax that, in the aggregate, is the most damaging to Maine's overall economy and that is the retail sales tax. There are several reasons why the sales tax is especially troublesome:

1. The general assumption that broadening the sales tax base is always a good idea is flawed. The genesis of the retail sales tax in the U.S. was in response to the economic damage created by the gross receipts tax (GRT) which was more prevalent a century ago. The tax base of the GRT is the total receipts of a business which maximizes the economically-destructive "tax pyramiding" through the entire production structure of the economy.

To fix this problem, exemptions were purposively created to transform the GRT into a retail sales tax that more resembles a consumption tax. However, due to the problem of "dual-use," where a good or service can be used for either business or personal reasons, exemptions have proven to be a crude and often ineffective way to create a pure consumption tax. Simply eliminating exemptions, especially on services, will only serve to rebuild the GRT Frankenstein monster piece-by-piece.

2. The sales tax is a tax on investment. Since the retail sales tax can never be fully eliminated on business inputs, which is compounded by the problem of tax pyramiding, so the sales tax acts as a tax on investment. This is especially detrimental to Maine's construction industry where nearly all of their material costs are subject to the sales tax. This not only raises the cost to the final consumer, but also to the construction companies themselves since their suppliers are also subject to the same tax on their materials. The end result is less money available for future investments which compounds over time.

3. Another negative impact of the sales tax is on display when Mainer's engage in cross-border shopping in sales tax-free New Hampshire. My recent study, using over 50-years worth of data from the U.S. Census Bureau, found that Maine's economy could be as much as $2.2 billion higher per year along the border if Maine had the same level of retail sales as New Hampshire. The good news is that the retail sales gap has been closing after the sales tax rate dropped to 5 percent from 6 percent and New Hampshire has dramatically increased their cigarette tax rate.

Additionally, Maine is also the beneficiary of cross-border shopping with Canada. While that relationship is complicated due to currency fluctuations, there is a large tax incentive for

Canadians to shop in Maine thanks to their high taxes on consumption—13 percent in New Brunswick including provincial (8 percent) and federal (5 percent). As such, Maine already has an 8 percentage point tax advantage over New Brunswick.

4. The issue of sales tax compliance costs is a serious one. Maine's economy is dominated by small businesses which have the most difficulty in complying with the tax code. Sales taxes are particularly onerous since the taxability of goods and services can vary greatly—even within a single business establishment.

Also, administratively the state cannot piggyback on a federal sales tax as it does with the income tax. As a result, the state bears the full cost of enforcing the sales tax.

Of these four problems, the one that can be the most quickly addressed is the cross-border shopping issue. Historically, cross-border shopping did not become a major problem until the sales tax rate rose over 4 percent. However, since far more people live on the border today than in 1963 (when the sales tax rate first hit 4 percent), the sales tax rate would likely need to fall to 3 percent to seriously reduce cross-border shopping.

This initial 2 percentage point drop in the sales tax rate to 3 percent should be paid for by spending reductions which would cost approximately $400 million on a static scoring basis. More broadly, however, the total revenue costs would be significantly lower since more retail sales would be occurring in Maine boosting the remaining sales tax, income taxes and excise taxes. This dynamic effect would likely occur relatively quickly since it does not depend on new retail activity, only a shift in where the spending is already occurring.

More comprehensively, the remaining 3 percent sales tax should be phased-out as part of a broader consolidation of businesses taxes—including the corporate income tax, Schedules C (sole-proprietors), D (capital gains), E (partnerships, subchapter S, etc.) and F (farming) of the individual income tax, and the estate tax. These taxes should be folded into a Business Enterprise Tax (BET) which now has a successful track-record in New Hampshire of almost 20 years.

The BET is the best tax tree pruner since it is rationally designed as a type of value-added tax that comprehensively taxes all consumption at the business-level. In doing so, it excludes all investment/saving by business which is critical to boosting the long-term growth rate of Maine's economy. Finally, as shown in the attachment, the BET can also be filed on a post-card greatly reducing tax compliance costs.

Thank you.

FORM
BET

NEW HAMPSHIRE DEPARTMENT OF REVENUE ADMINISTRATION

BUSINESS ENTERPRISE TAX RETURN FOR CORPORATIONS, COMBINED GROUPS, PARTNERSHIPS, FIDUCIARIES AND NON-PROFIT ORGANIZATIONS

SEQUENCE # 2

YOU ARE REQUIRED TO FILE THIS RETURN IF THE GROSS BUSINESS RECEIPTS WERE GREATER THAN **$150,000** OR THE ENTERPRISE VALUE TAX BASE WAS GREATER THAN **$75,000**.

For the CALENDAR year **2010** or other taxable period beginning ______ (Mo Day Year) and ending ______ (Mo Day Year)

THIS RETURN MUST BE FILED WITH THE BT-SUMMARY.

STEP 1 Print or Type Name	CORPORATE, PARTNERSHIP, ESTATE, TRUST, NON-PROFIT OR LLC NAME	FEDERAL EMPLOYER IDENTIFICATION NUMBER, SOCIAL SECURITY NUMBER, OR DEPARTMENT IDENTIFICATION NUMBER

If your business activities are conducted both inside and outside New Hampshire AND the business enterprise is subject to a business privilege tax, a net income tax, a franchise tax measured by net income, a capital stock tax, or other similar taxes, whether or not it is actually imposed by another state, or is subject to the jurisdiction of another state to impose a net income tax or capital stock tax upon it, then the business enterprise must apportion its enterprise value tax base. Complete Form BET-80 to determine the values for Lines 1, 2 and 3. Combined groups must complete Form BET-80-WE to determine the values for Lines 1, 2 and 3. If you need Form BET-80 or BET-80-WE it may be obtained from our web site at www.nh.gov/revenue or by calling (603) 271-2192.

STEP 2 Compute the Taxable Enterprise Value Tax Base	1 Dividends Paid	1			
	2 Compensation and Wages Paid or Accrued	2			
	3 Interest Paid or Accrued	3			
	4 Taxable Enterprise Value Tax Base (Sum of Lines 1, 2 and 3)			4	
STEP 3 Figure Your Tax	5 New Hampshire Business Enterprise Tax (Line 4 multiplied by .0075)			5	
	6 STATUTORY CREDITS (a) RSA 162-L:10. CDFA-Investment Tax Credit	6(a)			
	(b) RSA 162-N Community Reinvestment and Opportunity Credit Repealed for tax years ending on or after 7/01/07.	6(b)			
	(c) RSA 162-N. Economic Revitalization Zone Tax Credit. Effective for tax periods ending on or after 7/01/07 (see instructions).	6(c)			
	(d) RSA 162-P. Research & Development Tax Credit (unused portion, see instructions) Effective for tax periods ending on or after 9/07/07.	6(d)			
	(e) RSA 162-Q Coos County Job Creation Tax Credit	6(e)		6	
	7 Business Enterprise Tax Net of Statutory Credits (Line 5 minus Line 6. IF NEGATIVE, ENTER ZERO) **ENTER THIS AMOUNT ON LINE 1(a) OF THE BT-SUMMARY.**			7	

NEW HAMPSHIRE DEPARTMENT OF REVENUE ADMINISTRATION
BUSINESS ENTERPRISE TAX RETURN INSTRUCTIONS

FORM BET is required for all Corporations, Partnerships, Estates, Trusts, Non-Profits, LLC's and Combined Groups to report Business Enterprise Tax.

FORM BET-PROP is required for Proprietorships and Single Member Limited Liability Companies (SMLLCs) that are disregarded for purposes of federal taxation and the member is an individual to report Business Enterprise Tax.

STEP 1: NAME, IDENTIFICATION NUMBER, AND TAXABLE PERIOD

Whenever Federal Employer Identification Numbers (FEIN) or Social Security Numbers (SSN) are required, taxpayers who have been issued a Department Identification Number (DIN), shall use their DIN only, and not the FEIN or SSN.

At the top of the return enter the beginning and ending dates of the taxable period if different than the calendar year.

FORM BET: PRINT the Corporate, Partnership, Estate, Trust, Non-Profit or LLC name in the appropriate space provided. Combined filers PRINT the Principal NH Business Organization's name. Enter the FEIN, SSN or DIN in the space provided.

FORM BET-PROP: Print the primary individual's name and SSN and the spouses name and SSN, if both have a filing requirement. SMLLCs issued a unique and separate FEIN must enter the FEIN and not the individual member's SSN.

BET-80 APPORTIONMENT

If your business activity is conducted both inside and outside New Hampshire and is subject to tax in another state, whether or not actually imposed by the state, complete Form BET-80, BUSINESS ENTERPRISE TAX APPORTIONMENT, to determine the values for Lines 1, 2 and 3 of the Form BET.

Note: Combined group filers are required to complete the BET-80-WE to account for each individual nexus entity to determine the values for Lines 1, 2, and 3 of the Form BET.

BET Nexus differs from BPT Nexus (see RSA 77-E).

If both you and your spouse conduct separate business activities both inside and outside New Hampshire, then each must complete **a separate Form BET-80** (which may be obtained by accessing our web site at www.nh.gov/revenue or by calling (603) 271-2192).

After completing Form BET-80, enter the amount from Line 17 on Line 1 of your Form BET-PROP. Enter the amount from Line 24 on Line 2 of your Form BET-PROP. Enter the amount from Line 29 on Line 3 of your Form BET-PROP. Proceed to Line 4.

STEP 2: COMPUTE THE TAXABLE ENTERPRISE VALUE TAX BASE

If business activity was both **inside and outside** NH:

Line 1 Enter the total amount from the BET-80, Line 17*
Line 2 Enter the total amount from the BET-80, Line 24*
Line 3 Enter the total amount from the BET-80, Line 29*
Line 4 Enter the sum of Lines 1, 2, and 3.

* Combined filers must transfer the amounts from BET-80-WE Lines 17 (a), 24 (a) and 29 (a) respectively.

If business activity was **100% inside** New Hampshire:

Line 1 Enter the total dividends paid.
Line 2 Enter the total compensation on wages paid or accrued.
Line 3 Enter the total interest paid or accrued.
Line 4 Enter the sum of Lines 1, 2, and 3.

See BET Quick Checklist for what is a dividend, compensation or interest.

LINE 1: DIVIDENDS PAID

Enter the amount of dividends paid.

LINE 2: COMPENSATION AND WAGES PAID OR ACCRUED

Enter the amount of compensation paid or accrued, per RSA 77-E:1,V, including deferred compensation. Include all wages, salaries, fees, bonuses, commissions or other payments paid or accrued in the taxable period. This includes compensation on behalf of or for the benefit of employees, officers or directors of the business enterprise and subject to or specifically exempt from withholding under Section 3401 of the IRC.

The compensation amount entered on Line 2 should include the amount of any compensation deduction taken under the Business Profits Tax pursuant to RSA 77-A:4,III in the taxable period. It should also include any net earnings from self-employment subject to tax under Section 1401 of the IRC to the extent it was not included in the amount of any deduction taken under the Business Profits Tax (BPT) pursuant to RSA 77-A:4,III in the taxable period. Regarding partnerships, the net earnings from self-employment do include a partner's distributive share of the partnership earnings.

LINE 3: INTEREST PAID OR ACCRUED

Enter the amount of interest paid or accrued. Per RSA 77-E:1, XI, "Interest" means: all amounts paid or accrued for the use or forbearance of money or property.

LINE 4: TAXABLE ENTERPRISE VALUE TAX BASE

Enter the sum of Lines 1, 2 and 3.

Form BET-PROP: Enter the sum of Lines 1, 2 and 3, columns A and B.

STEP 3: FIGURE YOUR TAX

LINE 5: NEW HAMPSHIRE BUSINESS ENTERPRISE TAX

Multiply Line 4 by .0075.

Form BET-PROP: Multiply Line 4, columns A & B by .0075.

Line 5 is the sum of Line 5(a), column A & B.

LINE 6: STATUTORY CREDITS

CDFA Credit (Investment Tax Credit RSA 162-L:10 & RSA 77-A:5,XI). Enter the amount of any CDFA Investment Tax Credit claimed pursuant to RSA 162-L:10. The amount of the credit shall not exceed the lesser of the total Business Enterprise Tax (BET) liability or $200,000 for tax periods ending prior to July 1, 1999 or $1,000,000 for tax periods ending after June 30, 1999. If you also claim this credit on your BPT or other tax forms(s) the combined total shall not exceed $200,000 for tax periods ending prior to July 1, 1999 or $1,000,000 for tax periods ending after June 30, 1999.

Community Reinvestment and Opportunity Zone Tax Credit ("CROP"). RSA 162-N:7 CROP Zone Tax Credit was repealed for tax years ending on or after 7/1/07. The law provided that the credit shall be available for tax liabilities arising during the 5 consecutive tax periods following the signing of the agreement. As a result, although the law was repealed, the carry forwards may be available.

Economic Revitalization Zone (ERZ) Tax Credit. The ERZ may be utilized as a credit against BET or BPT. The ERZ Credits applied first against BPT shall not be available as a credit against BET. ERZ Credit applied first against BET shall be considered BET paid and available as a credit against BPT only to the extent it is a credit against BET. The NH Department of Resources and Economic Development (DRED) awards the ERZ Credit pursuant to RSA 162-N.

Research & Development Tax Credit enter the unused amount of BPT credit awarded by the Department with taxpayer's application (Form DP-165) pursuant to RSA 162-P.

Coos County Job Creation Tax Credit enter the amount taken (DRED Form CJCTC-1A application) as authorized by Department of Resources & Economic Development (DRED) by RSA 162-Q.

Enter the sum of 6(a) through 6(e) on Line 6.

LINE 7: NEW HAMPSHIRE BUSINESS ENTERPRISE TAX BALANCE DUE

Enter the amount of Line 5 minus Line 6. **IF NEGATIVE, ENTER ZERO.**

ENTER THE AMOUNT FROM LINE 7 ON LINE 1(a) OF THE BT-SUMMARY.

Attachment B

MECEP
Maine Center for Economic Policy

To: Joint Standing Committee on Taxation and its Subcommittee

From: Garrett Martin, Executive Director, Maine Center for Economic Policy

Date: November 9, 2011

Re: Maine Tax Reform

Thank you Senator Woodbury and Representatives Knight and Pilon for inviting me to participate in this morning's small group discussion on tax reform. Based on the materials from previous meetings, it is clear that you've invested significant time and energy on this topic and surfaced a number of critical issues.

I will attempt to be brief by highlighting areas of agreement with those who preceded me rather than attempting a wide-ranging treatise on the issue. I say this with particular humility recognizing that perhaps one of the most comprehensive reviews of recent tax reform in Maine is Senator Woodbury's paper for the New England Policy Center at the Federal Reserve Bank of Boston titled "The Struggle for Tax Reform in Maine, 2003-2009."

Before I begin, I'd like to say a few words about the Maine Center for Economic Policy. MECEP originated during Maine's fiscal crisis in the early 1990s, when numerous community organizations joined together to ensure that the interests of low- and moderate-income families would be represented in budget debates. Our job is to provide credible research and analysis that effectively evaluates the impact of state policy on promoting shared prosperity, particularly for low- and moderate-income families. Tax and budget policy is one of MECEP's primary areas of research. As MECEP's new Executive Director, I also want to make clear that we are an independent, nonpartisan organization.

Guiding Principles

Like the Joint Standing Committee on Taxation, MECEP's tax and budget work is informed by a set of guiding principles. Our principles are quite similar to those set forth by the Committee with one addition and one clarification.

The addition relates to advancing and maintaining a progressive tax structure. In short, we are guided by the belief that tax reductions should be targeted to those who pay the greatest share of household income in taxes.

As clarification, we share the concern for stability. However, stability in itself is not sufficient. We believe that an effective tax system must not only provide stability, but also adequate revenue over time to support essential government services.

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66 Winthrop Street ▸ P.O. Box 437 ▸ Augusta, ME 04332-0437 ▸ Tel: 207.622.7381 ▸ Fax: 207.622.0239 ▸ info@mecep.org

A key challenge to this principle is demonstrated by recent events. Demand for government services – assistance to low-income families and unemployed workers for example – tends to increase during economic downturns, while revenues tend to decrease. The recent $71 million shortfall at the Department of Health and Human Services is the most recent manifestation of this principle. Our ability to maintain revenue adequacy during economic downturns and preserve critical public investments in health care, education, infrastructure, and basic needs assistance, ultimately impacts both immediate and long-term prospects for recovery and future growth.

Tax Reform Challenges and Implications

Tax reform is the process of changing the way taxes are assessed, collected or managed by the government. This can be done piecemeal or comprehensively. A review of comprehensive state tax reform efforts in 18 states between 1999 and 2009 by Carolyn Bourdeaux at Georgia State University makes clear that there are a variety of ways to address this challenge. Professor Bourdeaux's review also reinforces our recent experiences in Maine – successful comprehensive reform is very difficult to achieve particularly if it raises or shifts the tax burden.

That said, I would argue that much of what transpired in the Legislature this year constitutes tax reform. Reducing the top marginal rate, restructuring the personal income tax rates, increasing the standard deduction and personal exemption to the federal amounts, eliminating the state's alternative minimum tax, raising the estate tax exemption, and limiting the value of the property tax circuit breaker represent significant changes to Maine's tax code.

These changes have significant implications for revenue adequacy and the progressivity of Maine's tax system as well. Albert DiMillo, Jr. effectively highlighted the increasingly regressive nature of Maine's tax system in his presentation to this subcommittee on October 12. In brief, he illustrates that the top 1% of Maine residents by income have an effective tax rate that is 35% lower than the effective rate of the bottom 99% of Mainers. Even using more conservative calculations provided by Michael Allen of Maine Revenue Services, the tax burden for the top 1% is 22% lower than the bottom 99% when the federal offset is considered.

There is also concern that recent changes will further increase the reliance on property taxes to fund education and local services. Relative to other states, property taxes already represent a disproportionate share of Maine's tax base. While our property tax is one way to export Maine's tax burden to nonresidents who have second homes here, it is a highly regressive tax. Increasing the pressure on property taxes and reducing the circuit breaker is a double whammy that has the potential to undermine the financial stability of many families, particularly low- and moderate-income ones.

Finally, the changes do little to improve the stability of revenues. Admittedly, this was not their intended purpose but it is important to reinforce points made by Professors Charlie Colgan and Orlando Delogu as well as others that Maine's sales tax is relatively narrow (and antiquated) compared to other states. Any serious effort to improve stability (and some would argue increase fairness) must address this issue.

Recommendations

With the above assessment and principles in mind, MECEP advocates for effective tax reform that includes the following components:

1) Adjust the income brackets. Maine's income brackets are too low and need to be recalibrated. While increasing the standard deduction and personal exemption to the federal amounts helps with this issue, it requires further attention.

2) Implement a more progressive rate structure. An expanded rate structure combined with adjustments to income brackets can improve overall progressivity and adequacy.

3) Expand and make the Earned Income Tax Credit refundable. The federal EITC has played a significant role in keeping families out of poverty. The fact that Maine's EITC is not refundable, as it is at the federal level, means that many working families lose much needed income.

4) Strengthen and streamline the Circuit Breaker. Participation rates suggest that the application process for this program could be dramatically improved. Reducing property tax relief for over 70,000 low- and moderate-income Mainers while providing significant income tax relief for high-income Mainers undermines overall progressivity.

5) Expand the sales tax base and consider adjusting the rate. This can improve stability and potentially help offset further income or property tax relief. It should not, however, come at the expense of low-income households.

6) Raise the tax on lodging and short-term auto rentals. Maine is well-below other states in this area and suggestions that it will lessen tourism are likely overstated.

7) Increase transparency and accountability of tax expenditures. Maine has more than 100 personal and corporate income tax and property tax reimbursement programs, as well as more than 100 sales and excise tax exceptions. As Maine Revenue Services (MRS) accurately recognizes, a substantial number of these "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."

In closing, the work of this Committee has the potential to significantly impact Maine families and businesses for many years to come. Clearly the recession's impact on the state budget has been deeply felt. Our collective challenge is to pursue solutions that are balanced, minimize the damage for Maine people, and leave us better positioned to achieve future prosperity. I hope you will continue to view the Maine Center for Economic Policy as a resource and ally in accomplishing this.