

Maine Capital Investment Credit (MCIC) –

A Complicated Response to Federal Bonus Depreciation that Is Unlikely to Significantly Encourage Capital Investment in Maine

Finding

MCIC is a complicated response to bonus depreciation, and is unlikely to affect capital investment in Maine

- **MCIC is complex for businesses**
- **MCIC is unlikely to encourage businesses to expedite their capital investments to any significant degree**
- **MCIC is unlikely to encourage businesses to choose Maine over other states when making capital investments.**

Presentation Map

PART I: Program Explainer

PART II: Evaluation

Evaluation Criteria

- **Intent — To stimulate the Maine economy by encouraging businesses to expedite capital investments in Maine.**
- **Goal — To encourage businesses to expedite purchases of qualifying business property in Maine.**
- **Part of Maine's response to federal bonus depreciation (Conformity)**

PART I: MCIC Explainer

- (1) Internal Revenue Code (IRC) Conformity
- (2) The Credit
- (3) Federal Bonus Depreciation
- (4) Related Tax Modifications
- (5) Changes Over Time

(1) IRC Conformity

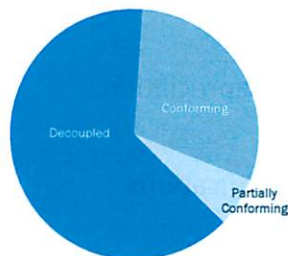
Maine lawmakers decide whether the state will conform with all federal income tax provisions or “decouple” from some, excluding them from the calculation of state income taxes.

<p>Conforming— when state tax policy follows the Internal Revenue Code</p> <p>Decoupling— when state tax policy diverges from the Internal Revenue Code</p>

IRC Conformity and Federal Bonus Depreciation

MCIC is part of Maine's response to federal bonus depreciation, from which Maine is decoupled.

The Majority of States Decouple from Federal Bonus Depreciation



Conformity Benefits for Businesses

(1) Financial Value

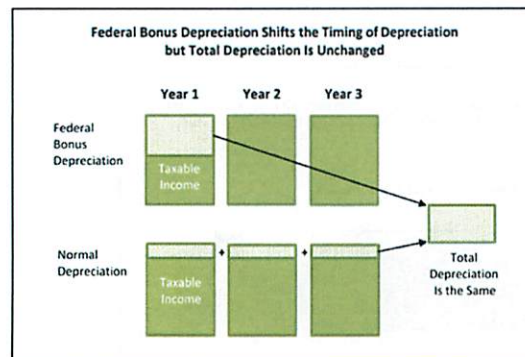
(2) Simplification of Tax Compliance

(2) MCIC Credit

- MCIC is a personal and corporate income tax credit for depreciable property placed in service in Maine.
- Available to Maine taxpayers who claimed bonus depreciation on their federal income tax returns.
- The credit works with an add-back and modifications to decouple from bonus depreciation but also attempt to provide the value of bonus depreciation.
- Presentation and report are focused on the most recent version of the credit (Title 36 §5219-NN(1-A)).

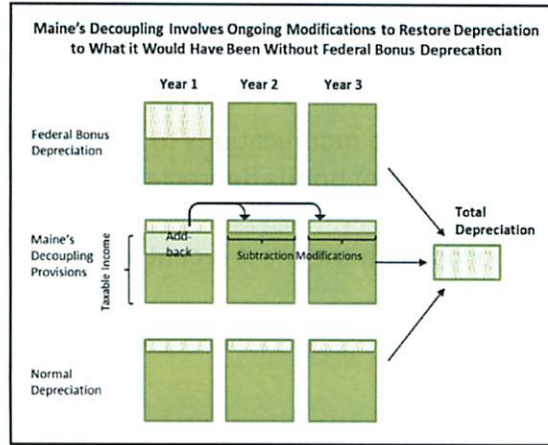
(3) Federal Bonus Depreciation

Federal Bonus Depreciation affects the amount of income tax a business owes



(4) Maine Tax Modifications

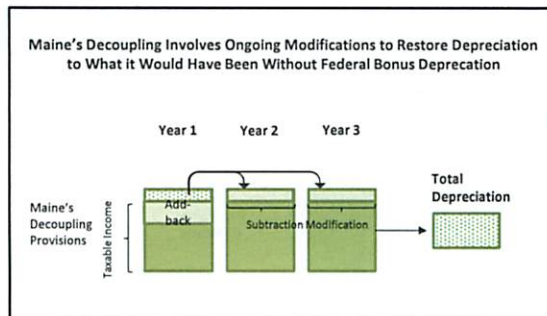
Maine does not conform but takes a different approach, requires modifications to taxable income over multiple years



Add-back – removes the effect of federal bonus depreciation from Maine taxable income for the year in which federal bonus depreciation was claimed

MCIC Credit Calculation

$$\text{MCIC credit} = \left[1.2\% \right] \times \left[\text{bonus depreciation add-back for Maine equipment} \right]$$



Add-back – removes the effect of federal bonus depreciation from Maine taxable income for the year in which federal bonus depreciation was claimed

(5) MCIC Changes

- Recent changes have increased equity between types of taxpayers (see Appendix C)
- However, the changes have also increased complexity

PART I: Summary

- Maine does not conform to federal bonus depreciation
- However, it is also uniquely complicated in its approach to providing a similar value to taxpayers.
 - See pg. 10 for examples of how other states decrease complexity.

PART II: Evaluation

MCIC's Intent

To stimulate the Maine economy by encouraging businesses to expedite capital investments in Maine.

MCIC's Goal

To encourage businesses to expedite purchases of qualifying business property in Maine.

As established in the Evaluation Parameters for this review

Is MCIC likely to encourage businesses to expedite capital investments?

- In general, business investment decisions are more likely to be driven by economic conditions and short-term sales and earnings than by tax considerations.
- Low “take-up”
- When used, not found to impact capital investment significantly
- Other positive effects (GDP, cash flow)
- MCIC less likely to have an impact

Is MCIC likely to encourage businesses to choose Maine over other locations when making capital investments?

- MCIC provides some of the limited financial value of conformity
- MCIC provides none of the tax simplicity that makes conformity desirable for businesses

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