

From: [Jones, Julie](#)
To: [Shorey, Mandy](#)
Subject: FW: Materials from today's orientation to Taxation Committee
Date: Friday, January 22, 2021 3:30:11 PM
Attachments: [Income Tax Overview w stats Jan 2021.pdf](#)
[revest_Meth_TAX \[Autosaved\].ppt](#)
[Sales Tax Division Tax Rate Sheet.docx](#)

Hi Mandy

Can you print out the attachments and the email from Diana and make it a single PDF and post to Materials webpage as "1-21-21 Orientation materials from Maine Revenue Services"

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From: Meader, Diana <Diana.Meader@maine.gov>
Sent: Thursday, January 21, 2021 1:06 PM
To: Jones, Julie <Julie.Jones@legislature.maine.gov>
Cc: Allen, Michael J. (MRS) <michael.j.allen@maine.gov>; Gerard, Jerome D. <jerome.d.gerard@maine.gov>; Popadak, Heather O <heather.o.popadak@maine.gov>; Methot, Judy A. <judy.a.methot@maine.gov>; Lacy, Peter W <peter.w.lacy@maine.gov>; Livingston, Bruce R. <bruce.r.livingston@maine.gov>
Subject: Materials from today's orientation to Taxation Committee

This message originates from outside the Maine Legislature.

Hi Julie,

Attached please find the materials the speakers from Maine Revenue Services used in their presentations this morning to the Taxation Committee. They consist of:

1. Income/Estate Tax Division overview;
2. Dr. Allen's PowerPoint presentation;
3. Link to the Office of Tax Policy page on the MRS website: [Office of Tax Policy | Maine Revenue Services](#)
4. Links to the Property Tax page on the MRS website:
Property Tax Relief Programs: <https://www.maine.gov/revenue/taxes/tax-relief-credits-programs/property-tax-relief-programs>
Property Tax Guidance Bulletins: <https://www.maine.gov/revenue/taxes/property-tax/bulletins>
5. Sales, Fuel & Special Tax Division Tax Rate Sheet; and
6. Link to the Sales, Use and Service Provider Tax Reference Guide:
<https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Reference%20Guide%202020.pdf>

Thank you,

Diana Meader

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To prevent the spread of COVID-19, public access to Maine Revenue Services facilities is temporarily limited to only accepting tax payments by deposit box at 51 Commerce Drive in Augusta until further notice. Telephone assistance hours are 9:00 am to 12:00 noon, Monday through Friday (State of Maine holidays excepted). All telephone and email contact information is available at: www.maine.gov/revenue/about/contact. This includes the Taxpayer Service Center at [\(207\) 624-9784](tel:2076249784) and the Property Tax Division at [\(207\) 624-5600](tel:2076245600).

Confidentiality Notice

*The information contained in this message may be privileged and confidential and any unauthorized review, use, disclosure or distribution subject to legal penalties. **If you have received this communication in error**, please notify us immediately by replying to the message and deleting the original and all copies from your computer. Thank you, Maine Revenue Services.*

Maine Revenue Services

Income / Estate Tax Division Overview

The Income/Estate Tax Division administers the following **tax programs**:

- **Individual Income Tax (1040ME)**
 - 745,000 annual filers
- **Fiduciary Tax (1041ME)**
 - 12,400 annual filers
- **Corporate Income Tax (1120ME)**
 - 14,100 annual filers
- **Financial Institution (“Franchise Tax”) (1120B-ME)**
 - 160 annual filers
- **Estate Tax (706ME/700SOV-ME)**
 - 2,593 filers in 2020
 - 84 taxable / 2,509 nontaxable
 - 2,298 lien discharges
- **Insurance Taxes**
 - 1,160 filers – Premiums tax
 - 630 filers – Fire Prevention tax
 - 600 filers – Surplus Lines tax
- **Employer Withholding - Wages (941/C1-ME) and Pensions (941ME)**
 - 54,800 annual filers
- **Pass-Through Entity Withholding (941P-ME)**
 - 17,400 annual filers
- **Real Estate Withholding (REW)**
 - 5,100 filers during 2020

The Income / Estate Tax Division performs the following **services and functions**:

Taxpayer Assistance – Note that beginning March 24, 2020, due to ongoing coronavirus restrictions and staff teleworking, telephone taxpayer assistance hours are limited to 9:00 a.m. to 12:00 noon and public access to the Taxpayer Service Center is limited to only accepting tax payments via a payment deposit box.

- Telephone (57,562 calls in 2020, including 700 on the tax practitioner hotline)
- Email (17,994 emails answered in 2020)
- Service Center (walk-in service – 1,236 visitors in 2020)
- Internet materials at www.maine.gov/revenue, including tax forms & instructions, tax credit worksheets, agency rules, guidance documents, frequently asked questions, and the Maine Tax Alert (available online and sent to approximately 2,400 recipients)
- Advisory rulings (by taxpayer request)

Public Outreach

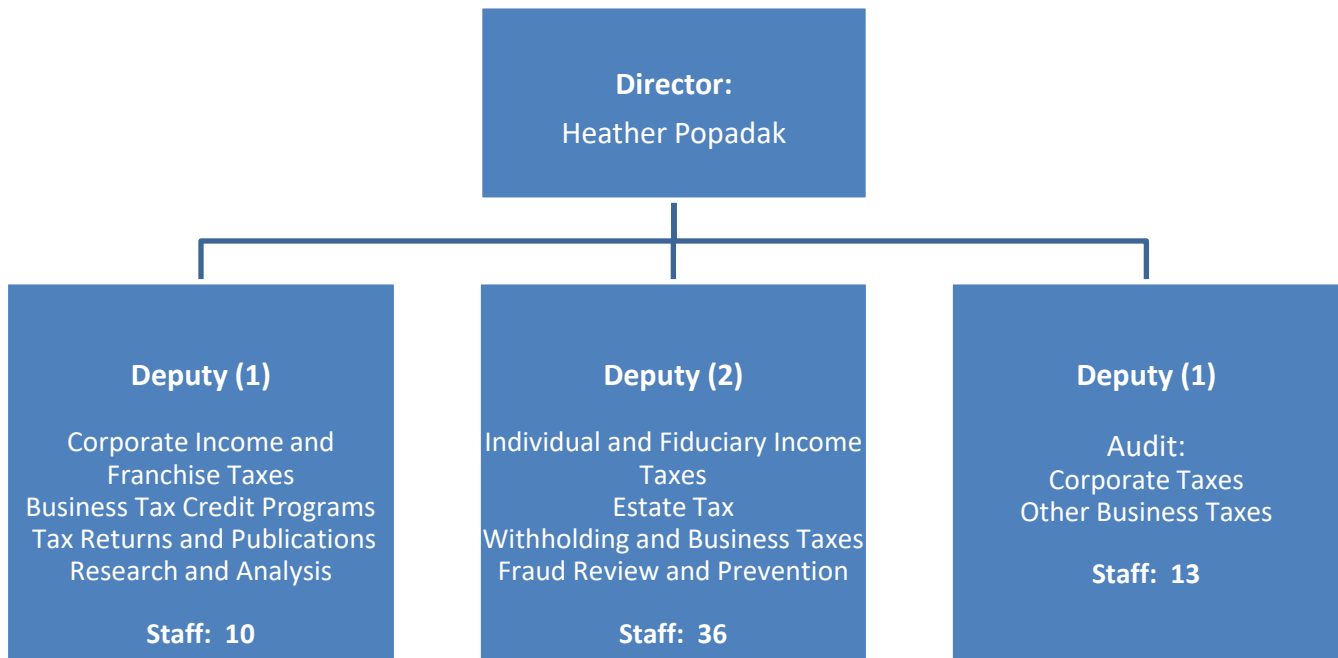
Provide instruction on individual income tax return preparation and application assistance to various tax professional groups / tax preparation agencies such as • Maine Association of Professional Accountants (MAPA) (approximately 40 attendees) • New Hampshire Society of Accountants (NHSA) • Tax Counseling for the Elderly (TCE) (approximately 150 attendees) • Volunteer Income Tax Assistance/American Association of Retired Persons (VITA/AARP) (approximately 125 attendees) • rotary clubs • legal groups • community action programs • agencies on aging • other senior citizens groups

- Participate in the MRS sponsored annual Tax Symposium (approximately 1,050 attendees)
- Present at the virtual Maine Tax Practitioner Institutes (approximately 250 attendees)
- Present at the virtual UNH Tax Practitioner Institute in New Hampshire (<100 attendees)
- Tax practitioner telephone hotline (700 calls received in 2020)

Tax Administration & Audit

- Update tax forms & instructions (available in paper & downloadable formats)
- Review and correct tax returns (7% suspension rate)
- Review refunds for accuracy (approximately 71% of returns processed result in refunds)
- Review and issue decisions on reconsideration requests (547 decisions written during 2020)
- Conduct desk and field audits

Maine Revenue Services Income / Estate Tax Division Overview



Unit

E-mail Address

Taxpayer Service Center

income.tax@maine.gov

Income Tax Assistance

income.tax@maine.gov

Withholding Tax

withholding.tax@maine.gov

Corporate Tax

corporate.tax@maine.gov

Fiduciary/Estate Taxes

estatetax@maine.gov

Insurance Premium Tax

corporate.tax@maine.gov

Practitioners' Hotline

income.tax@maine.gov

Business Tax Audit

audit.tax@maine.gov

Estate Tax Audit

estatetax@maine.gov

Forms Request Phone Line (automated)

(207) 624-7894

Order printed forms On-line www.maine.gov/revenue/tax-return-forms/electronic-request-form

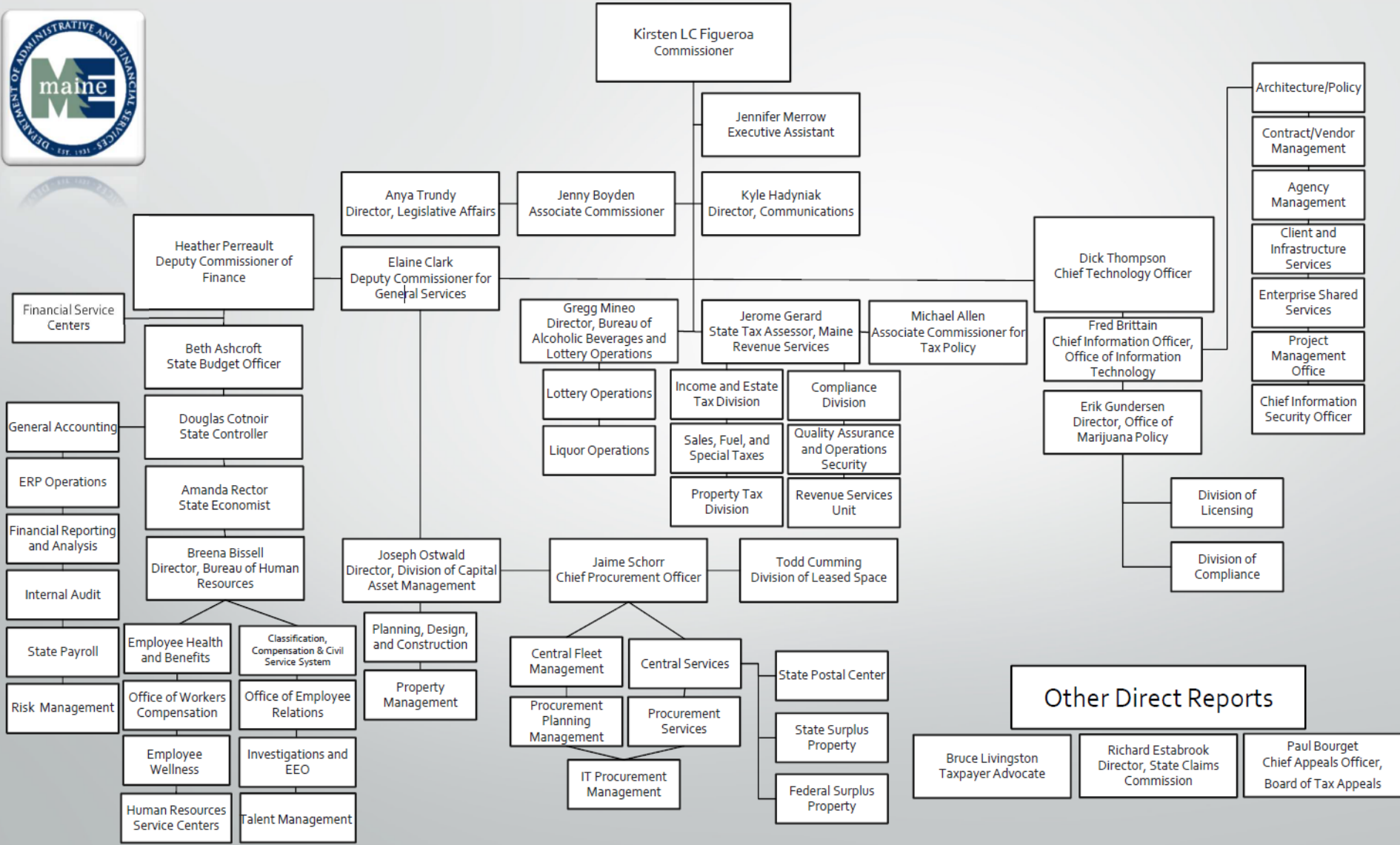
MRS website: www.maine.gov/revenue

Office of Tax Policy and the Revenue Forecasting and Estimating Process

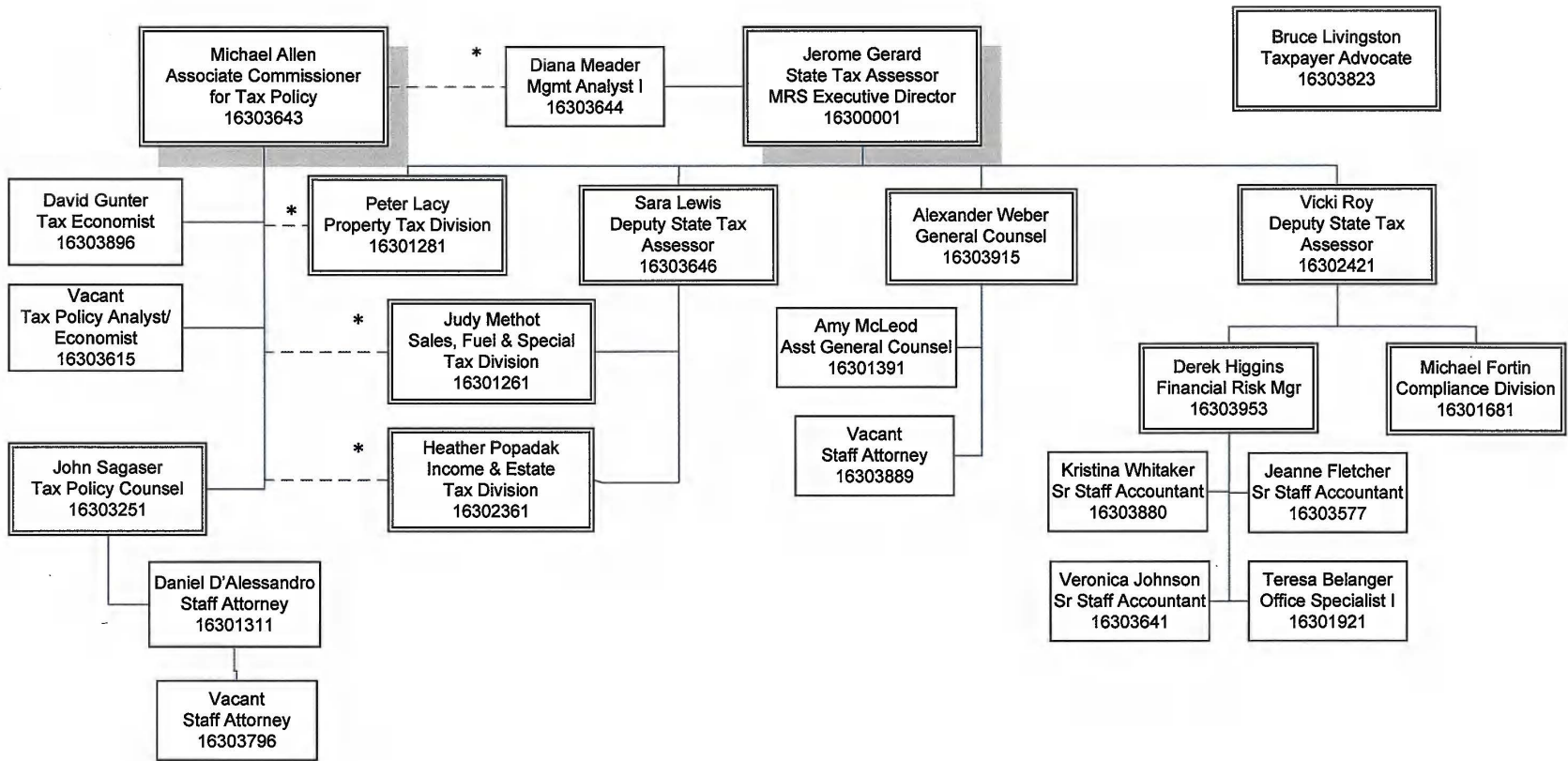
Michael J. Allen

Associate Commissioner for Tax Policy

Maine Revenue Services-Office of Tax Policy



Maine Revenue Services 281FTE



* Legislative and policy oversight

Office of Tax Policy

- Associate Commissioner, 3 legal staff positions (Tax Policy Counsel and 2 Staff Attorneys) and 2 economist positions (Tax Economist and Tax Policy Analyst)
- Legislative and policy oversight supervision of the directors and senior staff of Income, Sales and Property Tax Divisions
- OTP provides professional economic and legal analysis on tax policy issues to advise the DAFS Commissioner, other departments, and the Office of the Governor in the development, analysis and implementation of tax policies and programs.
- OTP produces fiscal and economic analysis reports, provides advice and briefings on current tax developments, and coordinates interdepartmental tax-related policy

Responsibilities Include

- Revenue Forecasting Committee (RFC)
- Revenue Estimates – OFPR is responsible for fiscal notes
- Distribution Tables
- Basic Data Dissemination
- Legal research and analysis
- Economic analysis (State Economist now in DAFS)

Reports

- RFC report – includes CEFC report (OFPR website and hard copies)
- Commissioner's monthly revenue report (OSC website – TAX receives hard copy)
- Tax Expenditure Report (MRS/OTP website)
- Tax Incidence Report (MRS/OTP website)
- Stress-Test Report (State Economist's website)
- Monthly Taxable Sales Reports (MRS/OTP website)

Terminology

- Revenue Forecast: Also known as the “Baseline Forecast” – the projection of current and future fiscal year revenues based on economic assumptions from the CEFC and the continuation of current state & federal tax laws, regulations, court cases, and administrative procedures.
- Revenue Estimate (score) – The estimated change in the baseline forecast of a proposed change in state tax law(s). Basis of OFPR “fiscal note”

Revenue Forecast

- Produced every December 1st, May 1st odd-numbered years (long session) and March 1st even-numbered years (short session). State Budget Officer can call emergency meeting
- Membership: ACTP, SBO, State Econ., Dir. OFPR, nonpartisan staff, economist UMS
- Public meetings; can go into executive session
- Must use CEFC economic forecast
- The key assumption in the revenue forecast issued by the RFC, as it applies to revenue estimates, is that the baseline forecast is “all knowing”.
- “all knowing” means that at the time the RFC forecast is made it is based on all existing state and federal tax laws, court decisions, regulations, rules, policies and administrative procedures.
- Any changes to any of the above between RFC meetings is assumed to be outside the current revenue forecast.

Revenue Estimating Methodology

- Maine's approach to developing revenue estimates is consistent with all other states and the federal government
- The objective of the methodology is to develop a revenue estimate that is as accurate, timely, and consistent given the existing professional economics literature and state's modeling capabilities.
- Many revenue estimates can be developed using the MRS/OTP tax models, require few assumptions and have a high degree of certainty
- Other revenue estimates require a lot of research to gather information that may not be directly related to the issue of the bill, a number of key assumptions that are based on the experience and judgment of the estimator, and therefore have a varying degree of uncertainty

MRS Approach to Revenue Estimates

- MRS/OTP estimates are developed professionally and without regard to the goal of the proposal, or the individual, political party or branch of government making the proposal
- Always willing to review an estimate to take into account new or additional information
- Work collaboratively with MRS attorneys and division directors, and other state agencies
- There will be periods where we will need the assistance of the Chairs to prioritize our work in consultation with the Administration and Legislative Leadership

Types of Revenues Estimates

- Static: Assumes no change in taxpayer behavior and economic assumptions
- Micro-Dynamic: allows for taxpayer behavior and changes in composition of macro variables, but maintains in the aggregate economic and demographic assumptions
- Macro-Dynamic: allows for taxpayer behavior and for changes in aggregate levels of underlying economic and demographic assumptions (feedback effects)

Static Estimate - Example

- 10% increase in the cigarette excise tax
 - results in a 10% increase in revenue
 - No change in smoking rates
 - No change in current smokers demand for cigarettes
 - No change in cross-border or internet activity
 - No change in compliance

Micro-Dynamic Estimate - Example

- 10% increase in cigarette excise tax rate
 - Results in a less than 10% increase in revenue
 - Smoking rates decline
 - Current smokers reduce consumption
 - Smokers purchase cigarettes in other states
 - Smuggling

Macro-Dynamic Estimate - Example

- 10% increase in cigarette excise tax rate
 - Results in a less than 10% increase in revenue
 - Smoking rates decline
 - Current smokers reduce consumption
 - Smokers purchase cigarettes in other states or over the internet
 - Smuggling
 - Lower consumption of cigarettes and other goods at Maine stores reduces business activity and profits

Macro-Dynamic Estimates

- Some states (e.g. CA and MA) tried to include feedback effects in their revenue estimates, but abandoned such efforts.
- Federal government has capability, but only for certain proposals and not part of official scoring of tax proposals.
- Requires more sophisticated modeling capabilities, assumptions, and time.
- State Economist has performed this work in ME
- Tax change must be significant enough to get measurable results; balanced budget requirement
- In many cases models not capable of distinguishing between tax options
- Revenue forecast is dynamic

Typical Issues with Revenue Estimates

- Timing – estimates take into account taxpayer behavior concerning timing of income and consumption. (examples: income tax changes, sales tax holiday)
- Compliance – estimates take into account taxpayer compliance and abilities of MRS to enforce. (example: short-term rentals)
- Compliance & Enforcement Efforts – baseline forecast includes revenue from MRS audits and collections activity, therefore proposals to reverse such actions have a fiscal note (example)
- Tax Administration Policies – baseline forecast assumes continuation of tax administration policies and practices (examples: hay for horses, summer camps)
- “All Knowing” Baseline – baseline forecast includes all laws, regulations, rules and court actions as of date of RFC report (example: FCC requirement for digital broadcasting)
- “But For” Test – because only micro-dynamic estimates are used for fiscal notes, the inclusion of the “but for” test does not prevent a fiscal note from being placed on a bill (example: Pine Tree Zones, ETIF)

Distribution Tables

- Show the impact of tax law changes on Maine residents by percentiles
- Provides additional information on the progressivity/regressivity of change, taxpayers with an increase/decrease, and average impacts on affected taxpayers
- Can provide additional details (e.g. elderly vs. non-elderly, homeowners vs. renters)
- Like dynamic revenue estimates there are a number of important assumptions that affect the results
- Additional piece of information available to policymakers

Maine Revenue Services
Sales, Fuel, and Special Tax Division

Tax rates as of January 1, 2021

Sales and Use Tax: 5.5%, 8%, 9% and 10% (imposed on consumer; collected by retailer)

Service Provider Tax: 6% (imposed on the provider)

Marijuana 10% (imposed on the consumer; collected by retailer)

Gasoline Excise Tax: 30.0¢ per gallon (imposed on consumer; paid by distributor)

Diesel Excise Tax: 31.2¢ per gallon (reported by retailers and users)

Cigarette Excise Tax: \$2.00 per pack of 20; \$2.50 per pack of 25

Smokeless Tobacco: \$2.02 per ounce

Smoking Tobacco: 43% of the wholesale price

Marijuana Excise \$335 per pound on marijuana plants or flower, \$94 per pound of marijuana trim,
\$1.50 per immature plant or seedling, .30 cents per marijuana seed

Blueberry Tax: 1.5¢ per pound (imposed on the processor or shipper)

Mahogany Quahog Tax: \$1.20 per bushel (wholesaler)

Milk Handling Fees: 4¢-84¢ per gallon, dependent on the basic price of milk (wholesaler or
producer)

Potato Tax: 6¢ per hundredweight

Railroad Tax: 3¼%-5¼% of gross transportation receipts; minimum tax of ½ of 1%

Hospital Tax: 2.23% of net operating revenue

Health Care Provider Tax: 6% of annual gross patient services

Recycling Assistance Fees: \$1 per tire or lead-acid battery (goes to DEP)

E-911 Wireless Fees: \$1.16 per retail transaction (goes to PUC)

Pesticide Fee .15 per container. (goes to the Tick Lab at the University of Maine)