

Testimony in Support of LD 7, An Act to Update References to the United States Internal Revenue Code of 1986 Contained in the Maine Revised Statutes

January 31, 2023

Sen. Grohoski, Rep. Perry, and distinguished members of the Committee on Taxation, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am here to testify in support of LD 7.

Conformity is your opportunity to decide whether or not Maine will adopt new changes made to the federal tax code. Each year when Congress makes changes to US taxes, Maine has the opportunity to choose whether or not to incorporate these provisions at the state level. Conformity is not automatic or required. Although this bill may seem technical in nature, it has very real and sometimes large policy implications. Conformity decisions can have a significant impact on how taxes operate in Maine.

This year, Congress made a big change to how massive corporations—those with profits over \$1 billion—are taxed to make sure they aren't saying their profits are one thing to shareholders and another thing to the IRS. Corporations use complex accounting schemes and loopholes to hide their profits from taxation while reporting billions in profits to investors. The purpose of this federal change is to promote greater transparency and consistency in how these corporations report their profits and ensure they pay their fair share in taxes. First, it asks corporations to report their income consistent with what gets reported in their corporate financial books. Then it calculates the alternative minimum tax (15 percent) for that income and compares it to the existing corporate tax (21 percent) on its reported federal taxable income, and imposes whichever tax is higher. Congress estimates about 150 taxpayers would be subject to the federal alternative minimum tax each year.

Table 1 in this testimony shows the current tax rates and a suggested alternative minimum tax rate for Maine.

Table 1: Tax on corporations with book profits over \$1 billion

	<u>Current corporate tax</u>	<u>Alternative minimum tax</u>
Federal	21%	15% (adopted)
Maine	8.93%	6.38% (suggested)

Example: Corporation A reports \$0 in taxable income to the federal government, which gets carried over to its Maine tax return. For the same year, Corporation A reports \$1 billion in worldwide profits to shareholders, including \$1 million in Maine. Under the current corporate tax rate, Corporation A would pay \$0 in Maine state taxes. Under the suggested alternative minimum tax, Corporation A would be responsible for paying 6.38% on the \$1 million it earned in Maine, or \$63,800 (before any relevant state tax credits).

By incorporating these changes into Maine's tax laws, lawmakers can ensure that these massive corporations pay their fair share, just like hardworking Mainers and small businesses in our communities do. Because the changes are part of federal tax law, they will be easier to implement at the state level as well. Maine already has experience conforming in the past with a similar tax that was repealed in 2018. This new law is much more streamlined. Maine previously had a form it used for this tax and could create one again. To implement this tax, Maine will have to choose its own alternative minimum tax rate. The 6.38% rate we suggest is about 30 percent

lower than Maine's current corporate tax rate, similar in ratio to the federal corporate and alternative minimum taxes.

Because the public does not know how many corporations making over \$1 billion in profits have tax liability in Maine, we cannot estimate how much in taxes this bill could bring in. We encourage the legislature to conform with the federal alternative minimum tax on corporations and adopt this law in Maine to ensure large corporations are paying their fair share in state taxes.

Thank you for your time and I would be happy to answer any questions.

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