TESTIMONY OF
JOHN SAGASER, TAX POLICY COUNSEL, MAINE REVENUE SERVICES
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

Before the Joint Standing Committee on Taxation
Hearing Date: *May 11, 2023*

LD *1804 – "An Act to Provide Transparency and Accountability for Corporate Tax Expenditures*"

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is John Sagaser, Tax Policy Counsel for the Office of Tax Policy, Maine Revenue Services. I am testifying at the request of the Administration Against LD *1804*, "*An Act to Provide Transparency and Accountability for Corporate Tax Expenditures.*"

This testimony is limited to the bill as it affects Maine Revenue Services. The bill requires the State Tax Assessor to annually submit reports to the joint standing committee of the Legislature having jurisdiction over taxation matters ("TAX") containing certain information on (1) the Business Equipment Tax Exemption ("BETE") Program; (2) the Business Equipment Tax Reimbursement ("BETR") Program; and (3) the Shipbuilding Facility tax credit. The annual report on the BETE program must also be submitted to the joint standing committee of the Legislature having jurisdiction over economic development matters. The bill also requires the Commissioner of the Department of Economic and Community Development ("DECD") to submit an annual report regarding Employment Tax Increment Financing ("ETIF") benefits to TAX. Each annual report must include the location and nature of the applicants, eligible equipment, or business property, whether certain program applicant and certification documentation is available for public review, certain company information (including parent companies), the program benefit amounts claimed, the projected and actual amounts of capital investment achieved through the program, and how to obtain data about the program.

The State Tax Assessor is currently required to annually report to the Taxation Committee the revenue loss attributable to each taxpayer claiming the Shipbuilding Facility credit (36 M.R.S. §§ 191(2)(GGG) and 5219-RR(9)(C)) (most recent report attached). Additionally, the State Tax Assessor may publicly disclose the names and reimbursement amount of persons receiving benefits under the BETR program (36 M.R.S. § 6660). The biennial BETR report can be found at: https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Business%20Equipment%20Tax%20Reimbursement%2C%202021%20%28PDF%29.pdf.

This proposal would expand such reporting and disclosure requirements, causing MRS to conduct additional research, auditing, verification, and compilation. In order to satisfy the increased requirements of this bill, MRS would need to hire an additional Revenue Agent and the Office of Tax Policy an additional Economist.

The Administration also notes the following technical concerns:

- The bill should be amended to include an application date and the timing for when the annual reports must be submitted to the Legislature.
- The bill should be amended to include exceptions to Maine's confidentiality provisions under 36 M.R.S. § 191(2) to allow MRS to divulge the required taxpayer information to the Legislative committees, to make the information available for public review, and, for purposes of Section 4 of the bill, to provide ETIF reimbursement information to DECD.

- Section 5 of the bill should be amended to reflect the current Maine Shipbuilding Facility Investment Credit under 36 M.R.S. § 5219-RR(9). The Shipbuilding Facility Credit affected by 36 M.R.S. § 6854 ended December 31, 2018.

The estimated revenue impact of the bill is revenue neutral.

The estimated administrative costs are between $260,000 and $360,000 beginning in the fiscal year during which the tax year begins for which the bill first applies. The costs include the addition of 9 lines to tax forms, an additional Economist to comply with the increased reporting requirements, and an additional Revenue Agent to audit and clarify information on the approximately 15,000 BETR and BETE accounts and to produce the annual report. Relative to the reporting requirement for the Shipbuilding Facility credit, the estimated administrative costs are nominal and can be absorbed by the Bureau.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.

Revenue loss to the State from the tax credit for Maine shipbuilding facility investment

A Report Prepared for the:
Joint Standing Committee on Taxation

Department of Administrative and Financial Services
Maine Revenue Services

December 31, 2022

I. Introduction

Maine Revenue Services ("MRS") is providing this report in compliance with Maine Revised Statutes Title 36, section 5219-RR, subsection 9, paragraph C, which requires MRS to provide annual reports to the Joint Standing Committee on Taxation of the revenue loss to the State as a result of the income tax credit for Maine shipbuilding facility investment for each taxpayer claiming the credit. This report follows the annual report on the credit issued by the Department of Economic and Community Development pursuant to Title 36, section 5219-RR, subsection 9, paragraph B.

II. Description of Benefits

A nonrefundable income tax credit is available to shipbuilders who meet employment and investment thresholds and are certified by the Commissioner of the Department of Economic and Community Development to receive the credit.

Certification requires, among other things, that the applicant owns and operates or proposes to construct a Maine shipbuilding facility, employs at least 5,000 qualified workers, has made a qualified investment of at least $100,000,000 at its Maine shipbuilding facility, and does not receive Pine Tree Zone or Employment Tax Incremental Financing benefits.

The credit is equal to $3,000,000 per year and can be increased up to $3,500,000 if the applicant satisfies certain employment and investment criteria. The credit is reduced if qualified employment falls below 5,500, and taxpayers with qualified employment below 4,000 cannot claim the credit. Unused credits cannot be carried forward.

Taxpayers may claim the credit for 10 consecutive tax years. This limitation is extended to 15 consecutive tax years if the taxpayer makes an additional $100,000,000 qualified investment at its Maine shipbuilding facility.

III. General Fund Revenue Loss for Report Year 2021

MRS is required to report the revenue loss during the report year as a result of this credit for each taxpayer claiming the credit. For purposes of the report, "revenue loss" means the credit claimed by the taxpayer and allowed pursuant to Title 36, section 5219-RR. "Report year" means the tax year ending during the immediately preceding calendar year.

For report year 2021, only one taxpayer with a tax year ending in 2021 claimed the credit. The revenue loss to the State for this taxpayer was $3,250,000, represented in the table below:

Report Year	Number of Taxpayers Claiming the Credit	Total Revenue Loss
2021	1	($3,250,000)
2020	1	($3,000,000)[1]

1 This represents the previously reported revenue loss in report year 2020 and is included for historical reference only.