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Testimony in Opposition to LD 1918, An Act to Modernize Maine's Business Incentive Programs by Creating the Dirigo Business Incentives Program and Eliminating Certain Other Tax Incentive Programs
May 19, 2023

Senator Curry, Representative Roberts, and members of the Committee on Innovation, Development, Economic Advancement, and Business, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am here today to testify in opposition to LD 1918. Let me be clear: this program is nothing but a massive tax giveaway. This is not an economic development program. This is simply a business tax subsidy in disguise, and we do not believe the Dirigo Business Incentive is the right approach to position Maine for the future.

LD 1918 would give businesses the following:

- up to a 15 percent tax credit for capital investment exceeding $50,000, with a lower 7.5 percent credit for York, Cumberland, and Sagadahoc counties
- a $2,000 tax credit tax per employee trained, for businesses that pay to train three or more workers in an approved employee training program for as few as 20 hours
- discounted rates on new incremental electricity usage

The eligible sectors for the tax breaks under this bill are those with business activity primarily (more than 50 percent of the time) in:

- agriculture, forestry, and fishing
- manufacturing
- long-distance freight transportation
- software publishing, data processing, and computer design service
- engineering, architecture, and scientific research and development services

Seeking to "support economic development" by giving money to businesses for investing in capital improvements and worker training assumes that: 1) there are not other constraints on the supply of labor; 2) that training programs are substantial enough that they increase worker productivity; and 3) that businesses do not have capital already to invest in equipment to maximize productivity. None of these things are likely to hold true.

First, Mainers cannot fully access the workforce and we have a labor shortage. This bill aims to support a stronger workforce, but ignores the most pressing issues workers are facing. The need for child care, housing, adequate wages, and paid family and medical leave are the biggest barriers keeping Mainers from entering or staying in the workforce. This program doesn't address the root causes of our workforce shortage, which is the main challenge facing businesses right now. Subsidies for training or capital investment will not help businesses who are struggling to find workers to help them keep their doors open due to staffing shortages.

Second, the business training activities required to receive this tax credit may already exist and many are already publicly subsidized, including apprenticeships, on-the-job training, and higher education. The amount of employee training required for businesses to receive the credit is minimal—just two-and-a-half work days—which is an inadequate amount of training to meet the need for skilled labor or complete many of the qualifying training programs. The state should invest directly in funding training programs for workers instead of tying the benefit to an employer.

And third, this program will subsidize larger employers who already have greater access to resources to make bigger investments over $50,000 in their businesses and who have more employees, and thus will receive larger tax credits. This program would provide refundable tax credits of up to $500,000 per year and allow credits to be carried over for up to four years. This is extremely concerning—it could greatly increase the cost of the program, and it means the state could be cutting large checks to big businesses and out-of-state corporations. This also may subsidize businesses for things they may already be doing or would have done anyway. There is no guarantee that businesses will make any additional investments in training or capital expenditures they otherwise wouldn't have.

The bill would also give discounted electricity rates to businesses for increases in consumption, shifting costs to other rate payers. Larger businesses with greater electricity usage will receive the greatest subsidy from this provision. Why would we reward businesses for consuming more electricity, especially in a state that is so acutely impacted by climate change?

Sweeping business tax giveaways are not the right approach for growing Maine's economy. Instead, we should examine how we can support Maine businesses with the real problems they face, including steep competition from multi-national corporations who avoid paying their fair share in taxes. Unfortunately, these large corporations will also be allowed to reap much greater benefits from this program than Maine's small businesses that are the backbone of our communities. We shouldn't be giving big corporations an even greater advantage over the hard-working small business owners.

This bill also picks winners and losers among industry sectors—leaving out health care, child care, and direct care which are all in dire need of workforce supports and primarily employ women. This bill focuses on male-dominated industries—data shows workers in these sectors in Maine are 75 percent male,[i] which could widen inequities and the gender pay gap even further, especially since there are no goals to increase diversity in these fields or metrics to show progress toward a goal of diversity. Programs like this don't narrow wealth inequality, they widen it.

We agree with targeting benefits toward areas of the state that need them most. However, this program does not target rural areas as it claims. Maine has few if any targeted programs that do, despite being one of the most rural states in the nation. Under this bill, businesses in Augusta, Bangor, and Lewiston would be eligible for the same tax breaks as rural areas.

This bill would also repeal the Pine Tree Development Zone, Employment Tax Increment Financing, and Maine Capital Investment Credit programs; the first two are already winding down to various degrees. We support this. However, this proposed replacement program has a huge price tag, which in the longer term will cost almost three times the amount of these existing programs. It would be fiscally irresponsible to pass this bill with a cost of $4.6 million in this biennium and ignore the impact of the future costs, which are estimated at $54.5 million per year.

With these funds, Maine could instead lift thousands of children out of poverty by increasing the child tax credit, improving their long-term prospects of leading healthier, more successful lives and participating in the workforce. Maine could expand access to affordable child care, allowing workers with children to return to jobs without spending more than they earn on day care. Maine could support start-up costs for a paid family and medical leave program, supporting workers in staying in and returning to the workforce. The ongoing cost of the proposed program is too large to risk without evidence to support whether this use of funds will be successful or actually have the desired impacts, when there are other evidence-based programs we could spend the money on instead.

Maine can improve the business productivity that drives our economy, but this program is the wrong way to invest in these goals. Research shows that capital investment and worker training are in fact components that drive productivity. Capital investment and an educated workforce are necessary for businesses to be successful. However, according to a Brookings Institution report[ii], which examined lessons from productivity research from around the world, capital investment and training alone are not adequate to ensure economic growth and increased productivity. Findings included:

- in most cases, the way factories, offices, or retail facilities were operated were more important than capital investment
- high levels of investment in some cases contributed almost nothing to productivity, for example, when government development policies had, in some industries, encouraged overinvestment where machinery was underutilized.

MECEP recently released a policy brief, *Are tax giveaways worth the money?*[iii] That identifies a number of ways that programs like this could be more equitable and support Mainers and small businesses who really need it, including:

- target businesses that need them, and benefit small Maine businesses, not large corporations
- target programs and tax breaks to meet the needs of underserved communities and businesses, not those who already have wealth
- invest in struggling communities
- avoid subsidizing companies that are repeated violators of local, state and federal regulations (such as wage or environmental regulations)

This program has minimal guardrails, but does disallow benefits in case of layoffs of 20 percent or more of employees for businesses with 20 or more employees, and for businesses who are public utilities or participating in certain other tax credit programs, including PTDZ, ETIF, the tax credit for shipbuilding facility investment, and paper manufacturing facility investment. However, businesses receiving other big tax credits—including the major headquarters expansion, research and development, major food processing, high technology investment, and manufacturing facility expansion credits—would also be eligible for the Dirigo tax credit. According to Maine Revenue Services, the sole recipient of the major headquarters expansion credit had zero income tax liability in 2021, and received an $800,000 check from the taxpayers of Maine.[iv] We only know this because this information was specifically required to be disclosed by law.[v] There is no such provision in this bill.

Maine taxpayers deserve transparency. Currently, we don't know what corporations in Maine are paying in taxes or what most are receiving in tax giveaways. We should know that before we talk about big new expensive tax giveaway programs. We support the reporting requirements in this bill, and if the committee does support this program, we strongly encourage you to keep them. However, they make no allowance for the public to know if the state is cutting big checks to businesses, and there are no clawback provisions for the state to recoup tax credits if, for example, a business sells equipment or takes it out of service. There is also no program sunset date, which would compel the legislature to reconsider whether this program is worthwhile in the future. We urge you to add these provisions.

We urge the Committee to oppose this bill. Thank you for your time. I would be happy to answer any questions. Contact information: maura@mecep.org

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[i] MECEP analysis of data from US Census Bureau, American Community Survey, 2017-21.

[ii] Baily, Martin Neil. The Brookings Institution. *Lessons from Productivity Research*. The Brookings Institute

[iii] Pillsbury, Maura. *Are tax giveaways worth the money?* Maine Center for Economic Policy. April 2023. https://www.mecep.org/taxes-and-budget/policy-brief-are-tax-giveaways-worth-the-money/

[iv] Maine Revenue Services, "Revenue loss to the State from the tax credit for major business headquarters expansions." 31 Dec 2022. https://legislature.maine.gov/doc/9360

[v] See Title 36, section 5219-QQ, subsection 4, paragraph B, which requires the amount of the credit used to reduce tax liability and the amount of the credit refunded to the taxpayer to be reported separately.

Policy Brief: Are Tax Giveaways Worth the Money?

Business tax breaks shouldn't go to massive corporations, but instead to supporting Maine people and small businesses.

By Maura Pillsbury| April, 2023

Executive Summary

Maine forgoes billions of dollars in revenue each year by giving out tax breaks. These tax giveaways are costly and sometimes poorly targeted to achieve intended outcomes. When Maine dedicates resources to unproven tax breaks, we lose funding that could be better spent to strengthen Maine's workforce and grow our economy. Maine must raise its standards for what we expect of these programs and how they are administered, what information is available about them, and whether there is any evidence that they work. Legislators should not continue to extend and expand these costly programs without this information.

A broad body of research on effectiveness of tax giveaways has found that tax giveaway programs targeting business behavior often have high price tags and little proof showing they are money well spent.

The legislature has sought to understand the impact of these tax giveaways for decades, most recently establishing a review process through the Office of Program Evaluation and Government Accountability (OPEGA). But data challenges have stymied many of OPEGA's reviews and limited its ability to draw conclusions about program impacts.

Instead of funneling money into unproven tax giveaways, the state should invest funds in programs including housing, child care, and paid leave that will improve economic opportunities for all Mainers, advance equity, and allow people to fully participate in the workforce.

We must also scrutinize and reform tax giveaway programs or Maine will continue to hemorrhage funds needed to address issues that threaten the economic health of our state. To reform tax giveaways, we must increase transparency, improve business accountability and data reliability, sunset unproven programs, and oppose expansion of new and existing unproven tax breaks.

Tax giveaways cost Maine billions of dollars each year

Maine has hundreds of tax giveaway programs that cost the state money — but you won't find them listed individually in the state budget although they reduce the amount of money available to the state to fund other important priorities like infrastructure, education, and health care.

While these programs are often referred to as "tax expenditures" MECEP uses the term "tax giveaways" because they give away state tax dollars that would otherwise be collected. Tax giveaways provide money to businesses, individuals, nonprofits, and other entities through tax exemptions, credits, and refunds, and other targeted programs intended to reduce taxes for a certain purpose. Often, business tax giveaways are created with an expectation that companies will create jobs or invest in equipment and facilities improvements that they otherwise wouldn't have been able without them.

Maine gives away over $1 billion in business tax breaks each year — almost as much as the state spends on education.

Maine Revenue Services (MRS) estimates the cost of tax giveaway programs in its biennial state tax expenditure report and in total these tax programs cost Maine at least $4.5 billion each year[1], an amount exceeding the entire state budget.[2] If the state eliminated all tax expenditure programs, it would have twice the resources it has now to invest back into communities. While some of these programs prevent double taxation and provide important benefits to Mainers with low and middle income, over $1 billion of these dollars go to business tax breaks each year – almost as much as the state spends on education.

Evidence-based tax breaks can have a positive impact and provide important supports

Example: The Earned Income Tax Credit (EITC) is a refundable credit that reduces taxes paid by workers with low to moderate income. Families with children receive a greater credit. The EITC has proven effective at reducing poverty.[3]

The resources Maine has to fund all of its priorities — from repairing roads, to supporting student achievement, to providing prescription drugs for seniors and addressing the opioid crisis — is reduced by these programs. With such a vast sum of money at stake, what is Maine getting from these tax giveaways? *And what could we be doing instead?*

Tax giveaways benefit people with wealth and big corporations in Maine

Some of the most profitable companies in Maine receive millions of dollars from targeted tax breaks designed with narrow criteria that only they meet. Often when large corporations receive big tax breaks like these, they pass that money on to their

Tax giveaways

Programs that reduce tax revenues collected by the state, including credits, exemptions, refunds, and other targeted initiatives reducing taxes with a specific aim.

Examples

Bath Iron Works is a subsidiary of defense contractor General Dynamics, a publicly traded company with over $38 billion in annual revenues.[4] In 1997, BIW got a $195 million tax break deal.[5] When that deal expired in 2018, a new one was created that gave the company an additional $45 million in tax breaks.[6] General Dynamics spent $2.6 billion on stock buybacks from 2018 through 2020, boosting returns for shareholders, after its tax break was renewed. Meanwhile, BIW employees picketed in response to over four years of wage freezes.[7]

IDEXX has over $3.2 billion in annual revenues[8] and will receive up to $16 million in state tax credits for building its new headquarters in Maine.[9] IDEXX argued it needed these tax credits to make it worthwhile to stay in Maine.[10] In 2022 alone, IDEXX executives sold their shares of IDEXX stock for $13 million.[11] The CEO of IDEXX receives over $9 million a year in compensation.[12]

One of the richest beneficiaries of the Pine Tree Development Zones program is paper manufacturing company **Nine Dragons Paper Holdings**, which has purchased and rehabbed paper mills in Maine, and is owned by one of the wealthiest families in the world. In addition to receiving the PTDZ credit, Nine Dragons also received $12 million in tax credits under the New Markets Capital Investment program.

executives and shareholders rather than investing in employees or their business.

Unlike many of Maine's small, local businesses, these large corporations are not cash constrained. They have the resources to invest without large, costly tax breaks that reduce what's available to improve the working conditions and economic stability of everyday Mainers.

While these global corporations maintain multi-billion-dollar bottom lines, struggling local businesses in Maine, small startups, and entire sectors like the care economy are at a real threat of failing to survive. These corporations have powerful lobbies that influence government policy to maximize their profits at the expense of Maine people. They argue they need these benefits to continue investing in Maine, but the profits they report to shareholders and their Securities and Exchange Commission (SEC) filings show otherwise.

Why are we helping to pad the profits of global corporations instead of using those resources to the benefit of Maine people and small businesses? While these corporations provide thousands of jobs and stimulate economic activity in Maine, they will continue to do so with or without tax giveaways provided at the expense of Maine people and small businesses.

Businesses face other barriers to success that tax breaks do not address

Giving away money to businesses doesn't address the root causes of real challenges they face, such as workforce shortages driven by low wages, skills mismatch, lack of paid leave, and unaffordable child care.[13] Supporting tax giveaway programs in hopes they will solve the challenges facing an industry or Maine's economy is putting a band-aid on a problem, rather than finding solutions at a deeper systemic level. Instead of giving money away in tax breaks to wealthy, out-of-state

Why are we helping to pad the profits of global corporations instead of using those resources to the benefit of Maine people and small businesses?

investors, Maine could invest in supports that make the state a great place to do business, including infrastructure like good roads, fast internet, and reliable cell service. The biggest challenges impacting Mainers also impact the ability of businesses to succeed — health care, affordable housing, and child care.

Outcomes and impacts of Maine tax giveaways, particularly for businesses, are often unclear

Unlike the EITC, we cannot draw a clear link between the majority of tax giveaway programs in Maine and their intended purpose — or what the state and taxpayers get for this money. In 2015, the Legislature set up a review process to get to the bottom of this conundrum. The Legislature's Office of Program Evaluation and Government Accountability (OPEGA) is tasked with review of Maine's tax giveaway programs, reporting to the Taxation and Government Oversight committees. OPEGA's tax expenditure review process has been identified as one of the most robust in the nation.[14]

OPEGA has repeatedly reached concerning conclusions across its evaluations of multiple business tax giveaway programs, including:

- program data to measure outcomes is often either not collected, inaccessible, or unreliable

Limited data access and availability make program effectiveness difficult to determine

Data limitations often mean OPEGA cannot fully review the impact of tax giveaway programs, leading to inadequate information for lawmakers to make policy decisions:

The ability to understand the specific impacts of Maine's R&D credit on the State economy is limited by the lack of readily available data...The current data storage system presents challenges. Specifically, the credit worksheets, which would be needed for aggregation, are currently stored in MRS's system as PDF image files. — OPEGA report on the Research & Development Tax credit.[15]

OPEGA concluded that the employment data collected as part of the business annual report process for [the Seed Capital tax credit] are not reliable... and no data are collected from participating businesses about how investment funds are spent. — OPEGA report on the Seed Capital tax credit[16] (The Legislature recently tripled the size of the Seed Capital tax credit program from $5 million to $15 million, based on job creation data that OPEGA concluded was unreliable.[17])

- program goals often do not align with program design or implementation, are vaguely defined, or are not defined at all
- administrative oversight is challenging

OPEGA's research findings mean Maine isn't getting the bang for its buck out of some business tax giveaway programs that some people thought it was. OPEGA's findings of some programs has called the efficacy of these programs into question. OPEGA's findings have also led state agencies and the legislature to clarify program goals, identify new data needed to evaluate the outcomes of programs, and shore up data collection procedures for some programs.[18] But work remains to ensure accurate data is collected and accessible across Maine's tax giveaway programs and outcomes are worth the cost.

Data is inaccessible, unavailable, or unreliable

The outcomes and impacts lawmakers and others hope tax giveaways will have can be difficult to measure or evaluate. Data is often hard to access because when programs are created many don't require transparency of how much money individual businesses receive in tax giveaways. Even when data is made accessible to evaluators, archaic state systems that use PDF files and paper applications rather than machine-readable data can make it difficult to easily query systems for information. For those programs that do require data collection, inconsistent data collection has sometimes been an issue. In the past, the state required businesses receiving tax giveaways to report information to the Department of Economic and Community Development, but this requirement was repealed in 2009, leading to a patchwork of data that is collected across programs and state agencies today.[19] Some programs have reporting requirements embedded in their statutes, but this is not consistent across programs. As a result, data is often inaccessible, unavailable, or unreliable.

Supporting tax giveaway programs in hopes they will solve the challenges facing an industry or Maine's economy is putting a band-aid on a problem, rather than finding solutions at a deeper systemic level.

However, OPEGA found much more data was available for one tax program it reviewed — the Historic Preservation credit. Due to robust data collection requirements for the federal version of credit and diligent reporting, OPEGA discovered the credit was unique in its degree of transparency and accountability.[20] As a result, OPEGA was able

Good Jobs First findings

While Maine has a robust tax expenditure review process, a recent report from Good Jobs First[21] finds Maine's online transparency on business tax giveaways ranks among the worst in the nation due to the lack of data transparency. Based on a review of five Maine business tax breaks, which are estimated to cost Maine taxpayers over $96 million in FY23,[22] researchers found a lack of transparency in Maine around which companies are receiving them and what is being done with the money. Lack of transparency undermines accountability. If information about recipients of business tax giveaways is kept secret, how can we evaluate whether the programs are accomplishing their goal of creating jobs, promoting innovation, or increasing wages? Or compare the public costs of providing tax giveaways with the benefits to our communities and workforce? We also can't see if companies are holding up their end of the bargain by making the investments promised. Other states have solved this transparency problem by making information easily accessible online and readily usable to any member of the public. In Maine, company specific data can be requested via freedom of access act requests. If this data is available through FOAA, it should also be posted online for everyone to examine.

to do a full and thorough review of the credit and its impacts and provide information to the legislature on the outcomes the state is seeing from this program and whether it is serving its purpose.

The Texas comptroller provides data on a public dashboard, showing who receives payments from economic development funds.[23] Nevada's Office of Economic Development posts reports publicly for its programs, including job, wage, and capital investment data.[24] Connecticut, Massachusetts, and New York also disclose which companies receive various tax breaks.

As the legislature has attempted to look at the impacts of tax giveaway programs and whether they are worth the money, data challenges make it difficult to definitively draw conclusions about Maine's programs and their effectiveness. Without this information, we are in the dark about whether the money the state is giving away could be better spent elsewhere. But there is at least one example (the Historic Preservation credit) of a Maine program that is collecting the necessary evaluation data, showing it can be done.

In 2019, the Legislature funded up to $46 million to modernize MRS systems to address data collection issues.[25] They are currently in the process of rolling out this system. The Taxation Committee is currently considering legislation aiming to improve the tax expenditure review process.[26] However, more work remains to both improve these systems and make information transparent to the public.

Presumptions underlying the creation of business tax giveaway programs have been disproven but continue to shape state policy.

Program design and goals are misaligned or unclear

When the legislature sets out to create a new tax giveaway program or expand an existing one, there may not be a clear link between the tax cuts a program creates and the desired goals and hoped for outcomes of the program. OPEGA has found this repeatedly in its evaluation of business tax giveaway programs.

Proponents of business tax giveaway programs often make assumptions they will have certain impacts that are not proven. This leads Maine to

OPEGA report examples of program design not aligning

It remains unclear whether PTDZ will cause businesses to create more quality jobs than would be created without the program...PTDZ's design...presumes that taxes and other costs are the barriers that must be overcome to encourage businesses to create quality jobs in the State. In assessing design, policymakers might ask themselves whether this is the right barrier. — OPEGA report on Pine Tree Development Zones[27]

Overall, we found that the program design is not well-aligned with the program goals, resulting in a situation where one cannot necessarily expect the program goals to be achieved. — OPEGA review of the Seed Capital Tax Credit program[28] waste taxpayer dollars on ineffective programs that don't have the hoped for impacts.

Administrative oversight is challenging

OPEGA has identified gaps in administrative oversight during its reviews, but because the programs are intensive to review (completed at a rate of about two per year) it takes time to identify and correct these gaps.[29] State agencies administer programs with minimal resources and sometimes have little control over data reporting or have other competing priorities. Program management is spread across several different agencies that have purview over the programs, with staff who perform similar data collection functions. OPEGA recommended centralizing this function rather than having the agencies administer it on their own. This could help address the gaps in oversight and challenges agencies face in ensuring accurate data is collected and available. Further, a centralized database and public reporting like dashboards used in other states could improve program transparency.

> *Policymakers may want to consider the costs and benefits of the current model of decentralized data collection and management for tax incentives performed by individual program staff across administering agencies and consider alternatives. For example, the State might consider whether there is cause to centralize a data management function for tax expenditures in the State or whether to create an entity that could provide guidance and assistance to those tasked with data management in the absence of such a centralized entity. - OPEGA report on Historic Preservation Tax Credit*

> *Maine's economic development programs are administered by multiple entities, and there is no common database from which we can identify all the programs in which a business participates. -OPEGA report on Employment Tax Increment Financing (ETIF) program*[30]

Research shows business tax giveaways aren't worth it — and there are better ways to support growth

While data on specific Maine tax giveaways can be challenging to obtain, a broader body of research on effectiveness of tax giveaways has found that tax giveaway programs targeting business behavior often have high price tags and little proof showing they are money well spent. Presumptions underlying the creation of business tax giveaway programs have been disproven but continue to shape state policy. Findings from research on tax giveaways include:

- at least 75 percent of the time, businesses would have made an investment anyway without a tax giveaway
- on average, only 10-30 percent of new jobs go to state residents who are not already employed
- new workers moving from out of town or out of state raise costs to public services, which offsets most of any increased tax revenue[31]
- many of these programs are poorly targeted to benefit places and people in need[32]
- even if subsidies create some economic gains, those gains are transferred to subsidized companies[33]
- because subsidies benefit corporate owners and shareholders, they exacerbate income and race inequalities[34]
- subsidies do not appear to generate measurable improvements in the broader state or local economy[35]

Business tax giveaways shift costs onto Maine taxpayers

Business tax giveaways shouldn't go to supporting massive corporations, but instead lifting up small businesses that are cornerstones of Maine communities. Like the rest of the country, Maine is struggling with the impacts of inflation resulting in part from corporate consolidation — too few corporations controlling too much of the food and energy sectors.[36] Supporting local businesses increases competition and takes power away from massive corporations to raise prices and pay low wages.

By decreasing taxes for big businesses, these programs shift the costs of public services from big businesses to other Maine taxpayers, including small businesses. The large sums of money we are giving away to big, profitable corporations could be better spent supporting small Maine businesses and communities still recovering from the impacts of the COVID-19 pandemic.

One of Maine's largest business tax giveaways primarily benefits large businesses:

"The 10 businesses with the highest ETIF benefits in FY18 received a total of $7.1 million, which is 53% of the payments made to all businesses in that year. The average payment to these businesses was approximately $710,600. Payments to the remaining 125 businesses in that year averaged just $49,613 per business. The 10 businesses with the smallest payments had an average payment of $5,112." — OPEGA report on Employment Tax Increment Financing (ETIF) program[37]

Good Jobs first tracks Maine business tax giveaway data that is available for top corporations.[38] *In 2019, recipients of the largest Business Equipment Tax Reimbursements tax breaks, the only Maine program that discloses recipients online, were these large corporations: Hannaford, Texas Instruments, Bath Iron Works, Sappi North America, Nestle Waters North America.*[39]

There are better policy solutions to support economic development than business tax giveaways:

- improving economic opportunities[40] for Mainers through programs such as the child tax credit
- adopting policies that advance equity and address barriers for women and people of color, and others traditionally left out, such as paid family leave and criminal justice reform[41]
- investing in quality of life and place (for example, by improving the quality of schools, ensuring public areas are clean and accessible, improving public services like public parks and public transportation)[42]
- providing supports Mainers need to fully participate in the workforce, such as child care and housing
- implementing job and skills training
- implementing programs supporting entrepreneurship and innovation[43]
- health care to support a healthy workforce

The funding used for giveaways to businesses could be directed toward other important priorities in Maine — including schools, broadband access, and paid family leave — that would make our state and communities a more attractive place to live, work, and do business and level the playing field to provide economic support and opportunities for Mainers and small businesses to thrive. Investing money in people over corporations — via policies like child care subsidies and the child tax credit — will give businesses the supports they need to retain workers and be successful.

Impacts of tax giveaways on racial equity and wealth inequality

Business tax giveaways have broad systemic impacts on racial equity and wealth inequality. These programs often provide additional resources to businesses that already have access to other resources and advantages. They perpetuate inequality by further consolidating wealth among individuals who already hold it. They often give money to big businesses with wealth, further perpetuating the consolidation of corporate power. By giving more money to those who are already well-resourced, these policies reinforce structural racism and underinvestment in under-resourced areas.

A Good Jobs First report examined uneven economic development occurring across five major US cities, finding some areas of the cities were growing and developing rapidly while others were declining. They found cities struggled to ensure residents benefited equally from development across their neighborhoods, and economic development programs were often investing in areas where others were already investing or supporting large companies and developers, and not neighborhoods with underinvestment, which are disproportionately communities of color.[44]

As in the rest of the country, data also show that the rate of business ownership among Black Mainers is lower than white, non-Hispanic residents, and Black Mainers earn significantly less income than their white peers.[45] On a national level, we know that white people are significantly more likely to own stock[46] and to be corporate executives,[47] meaning corporate wealth is concentrated among white people, and therefore business tax giveaways are more likely to benefit white people than people of color. White people in the US also hold much greater wealth than Black people due to generations of discriminatory public policies.[48] Minority owned start-ups are also likely to have greater difficulty accessing capital[49] and Black and minority-owned businesses were disproportionately likely to be in sectors adversely impacted by the COVID-19 pandemic, including leisure, hospitality, and retail.[50]

Economic development programs were often investing in areas where others were already investing or supporting large companies and developers, and not neighborhoods with underinvestment, which are disproportionately communities of color.

Underinvestment has also acutely impacted rural Maine. Maine doesn't track where in the state its tax giveaways are used, and few, if any of them specifically target rural areas of the state. Maine should channel resources into rural areas of the state instead of giving them to businesses in areas that are already thriving. Maine Center for Economic Policy detailed rural economic development strategies for Maine in a 2007 report, [51] but these investments were not made under the LePage administration.[52] While Maine's 10 Year Economic Development Strategy highlights the development of rural broadband and hubs near rural areas, it does not explore how the state could shift resources from tax giveaways to underserved areas.[53]

Making investments in underserved communities can help reverse historical inequities. Maine should pursue tax policies that help all communities thrive, including:

- Offer greater access to higher education to all Mainers by continuing Maine's free community college program
- Invest in growing skills and the abilities of Maine's increasing immigrant population to help address Maine's labor shortage
- Support underserved communities in accessing capital to start their own businesses
- Support community development financing, which makes loans available to those who otherwise would not be able to access them
- Target programs and tax breaks to meet the needs of underserved communities and businesses, not those who already have wealth.

Researchers at the Brookings Institution examined how business tax giveaways could be improved to support inclusive and equitable growth. They found promising use of inclusive scorecards to target growth, mapping equity indicators, and structuring tax breaks to focus on government fiscal health.[54]

When Maine gives away public funds to businesses regardless of need, we perpetuate wealth inequality and further concentrate wealth in the hands of already wealthy individuals and businesses. Maine should prioritize making investments in areas that target, rather than perpetuate, this inequality and invest in its people, communities, and small businesses — not tax giveaways to wealthy corporations.

Some incentives are better than others

When data is available, tax giveaway programs can be targeted and outcomes tracked in a way that helps us judge whether they are worthwhile investments. But what are the characteristics that can help us determine whether a tax giveaway is successful? Researcher Timothy Bartik of the Upjohn Institute developed an evidence-based checklist for well-designed tax giveaways.[55] The Pew Center has also done extensive research on tax giveaways[56] and provided technical assistance to states, including Maine, in designing tax giveaway review programs.

Limited data access and availability make program effectiveness difficult to determine

Successful programs: help historically marginalized populations or economically depressed areas of the state; support people and families with low and middle income; have measurable community impacts; example: Earned Income Tax Credit.

Unsuccessful programs: give money away to businesses, or people with wealth, for actions they likely would have taken anyway; have vague goals that are difficult to measure; program design and expected outcomes are not evidence based; impacts are not tracked or transparent; example: poorly targeted business tax breaks.

Based on these and other resources, lawmakers should consider factors including whether business giveaways:

- create investment in high-growth sectors
- add high-quality jobs (in terms of pay, benefits, and duration)
- target businesses that need them, and benefit small Maine businesses, not large corporations
- advance equity by investing in historically marginalized and underserved communities that are blocked from accessing capital, or disproportionately face other challenges to success

- invest in struggling communities
- target export businesses rather than displacing existing local businesses
- avoid subsidizing companies that are repeated violators of local, state and federal regulations (such as wage or environmental regulations)
- link economic development to workforce development policies, such as training for unemployed through neighborhood employment hubs[57]
- tie tax giveaways to budget constraints and pay for them with higher business taxes

Conclusion

Business tax giveaways in Maine need greater scrutiny and reform because they take funds away from other important public priorities and shift costs onto other Maine taxpayers. Little data is publicly available on who receives these tax breaks and how much they avoid paying in taxes as a result. We must increase program transparency and accountability to ensure these tax dollars are not wasted.

The legislature has created an evaluation process for business tax giveaway programs, but it is stymied by data limitations. Often these evaluations cannot confirm these programs are delivering the results they promise.

We must also more closely question assumptions about the ability of business tax giveaways to add jobs and create economic activity that would not have otherwise occurred. With so many other urgent needs to address — including housing, paid leave, and child poverty — we could make better investments for Maine workers, families, and communities with most of the money we lose through fruitless business tax giveaways.

Rather than expanding existing tax giveaways or implementing new ones, Maine should reform its approach to business tax giveaways.

Business tax giveaway reforms to pursue

- **Program transparency:** make data on business tax giveaways transparent and easily accessible to the public, including what individual businesses receive in tax breaks and for what.
- **Business accountability:** ensure businesses receiving tax giveaways fulfill expected outcomes, and if they do not, ensure that strong clawback provisions are in place.
- **Data reliability:** centralize data reporting and improve data collection systems for tax breaks.
- **Program sunsetting:** end unproven tax giveaways and dedicate resources to evidence-based policies and programs.
- **Oppose expansion of unproven tax breaks, new and existing:** Maine should not continue to expand or extend programs without proven outcomes when there are better, proven ways to achieve the outcomes tax giveaways often promise but do not deliver.

About MECEP

Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

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