*STATE of MAINE*

# THIRD REPORT

to the

LEGISLATIVE

RESEARCH

COMMITTEE

# THE STATE TAX STRUCTURE IN MAINE


*by Dr. John F. Sly*

Director, Princeton Surveys

Princeton, New Jersey



PUBLICATION NO. 100-3 MARCH, 1961 AUGUSTA, MAINE

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# STATE TAX STRUCTURE
# IN MAINE

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This is the third and final report in the series that the *Legislative Research Committee* requested Dr. Sly to prepare for the consideration of the people of Maine. It is concerned with a financial picture of the State; Maine's comparative tax position among the States; an analysis of each major state tax; the possibilities for additional revenue; and recommendations concerning railroad taxation in Maine.

— Senator William R. Cole
*Chairman,* Sub-Committee
on State and Municipal
Tax Structure.

AUGUSTA, MAINE

MARCH, 1961

**REPORTS TO THE**

**LEGISLATIVE RESEARCH COMMITTEE**

**1960 – 1961**

**by Dr. John F. Sly**

| | | |
|---|---|---|
| FIRST REPORT, | *Public Revenues and the Economy of Maine* Augusta, Maine | June, 1960 |
| SECOND REPORT, | *The General Property Tax in Maine* Augusta, Maine | November, 1960 |
| THIRD REPORT, | *The State Tax Structure in Maine* Augusta, Maine | March, 1961 |

Inquiries should be directed to:

Samuel H. Slosberg
Director of Research
Legislative Research Committee
State House
Augusta, Maine

STATE OF MAINE
OFFICE OF THE GOVERNOR
AUGUSTA

JOHN H. REED
GOVERNOR

March 10, 1961

In this report, Dr. Sly concludes his examinations of the state tax structure. I am sure that this report and the preceding reports will be a valuable source of information for the legislature and interested citizens.

There are many complex problems in providing revenue for the modern state, and the choice of ways and means are among the most difficult issues that come before a legislature.

All of us want our public services to meet the modern needs of our State. In fulfilling these conditions, we must have careful regard for three things: equity among taxpayers and taxpaying groups; the tax sacrifice that our citizens can be asked to sustain; and the tax environment that will best make Maine a good place in which to live and a good place in which to work.

This report considers these matters in great detail. It suggests various means of financing our budgetary requirements and explores the possibilities of revenue outside of our present tax structure.

I commend a careful consideration of this study to all citizens of the State.

Sincerely yours,

John H. Reed

John H. Reed
Governor

# STATE OF MAINE

RESOLVE (1959, c. 118), Providing that the Legislative Research Committee Study the State and Municipal Tax Structure of the State.

*Legislative Research Committee authorized to study State and municipal tax structure of the State. Resolved*: That the Legislative Research Committee be authorized to study and review the State and municipal tax structure of this State to determine the most equitable tax sources which can be utilized to finance expenditures of the State and municipalities.

Said committee shall have authority to employ such expert and professional advisors and such clerical and office personnel as its judgement may determine within the limits of the funds provided.

The committee's report shall contain recommendations for legislation believed necessary to correct any inequalities in existing methods of procuring state and municipal tax revenue. Such report shall contain a separate study of the taxation of property in the unorganized areas of the State and the taxation of railroad companies operating wholly or partially within the State with recommendations with respect thereto, if any; and be it further

*Resolved*: That the sum of $50,000 be appropriated from the Unappropriated Surplus of the General Fund and that any balance of this fund as of June 30, 1960 shall not lapse but be carried forward into the 1960-61 year to be used for the same purposes.

# STATE OF MAINE

## John H. Reed, Governor

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# ACKNOWLEDGMENTS

Aside from the usual basic sources acknowledged in the first and second reports, it is important to recognize the thoughtful assistance of the State's principal finance officers in the preparation of this report – particularly Raymond C. Mudge, Commissioner of Finance and Administration; Henry L. Cranshaw, State Controller; Roland M. Berry, State Budget Officer; and Ernest H. Johnson, State Tax Assessor. I have again consulted freely with those who would be most affected by the conclusions – particularly, in this case, representatives of the Maine railroads – and have received the fullest cooperation from all those with whom I conferred.

Of great importance to me were the efforts of President Lloyd H. Elliott and his colleagues of the University of Maine in arranging the Pre-Legislative Conference at Orono in December; and the cooperation of the Legislative leaders, in permitting me to appear before the Joint Legislative Conference in February.

Again I must express my deep appreciation for the assistance and encouragement of the Chairman of the Legislative Research Committee, Senator J. Hollis Wyman; Senator William R. Cole, Chairman of the Sub-Committee on State and Municipal Tax Structure; and to Samuel H. Slosberg, Director of Research, Legislative Research Committee.

There is one other matter: My colleague, Dr. Henry J. Frank, has given many hours of thoughtful consideration to the preparation of each report; and has contributed much to the basic decisions of policy.

John F. Sly

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## STATE AND LOCAL TAXES

Total state and local taxes in Maine for the fiscal year ending June 30, 1960 were $181 million. Of this sum the state received $92.5 million (51 percent) and local governments $88.6 million (49 percent).

Property taxes accounted for $88.6 million (50 percent) of total taxes; sales accounted for $73.4 million (40 percent); privileges, $19.2 million (10 percent).

Ninety-eight percent of local taxes come from property; 79 percent of state taxes come from sales; and 55 percent of state taxes come from the 3 percent retail sales tax (30 percent) and 7 cents gasoline gallonage tax (25 percent).

### Additional Revenue

The following sources inside the present tax structure are suggested for the consideration of the Legislature – the amount to be raised will depend upon the use of the surplus and the appropriations that may be adopted:

| | | Annually |
|---|---|---|
| Proposal 1: Increase the retail sales tax by ½ of 1 percent to raise | | $ 4,500,000 |
| Proposal 2: Increase the retail sales tax by 1 percent to raise | | $ 9,000,000 |
| Proposal 3: Extend the sales tax base to include: | | |
| Amusements | $ 450,000 | |
| Full purchase price of automobiles | 1,500,000 | |
| Alcoholic Beverages | 750,000 | |
| | | $ 2,700,000 |
| Add 1 cent to the cigarette tax | | 1,300,000 |
| (Or a combination of these proposals) | | $ 4,000,000 |

* * *

While the report does not urge a complete tax program there are negative assumptions that seem certain to guide the Legislature:

1) The State of Maine has abandoned its general property tax (except in the unorganized territory) and will not return to this base for General Fund purposes;

2) Since the first state tax report in 1890, no report has urged an income tax either individual or corporate, and it is not likely that the Legislature will turn to these bases at this time;

3) In the business excise tax field, there is little hope for increased revenues of any magnitude, and if the Legislature accepts the findings of the Public Utilities Commission and the State Supreme Court, it may make downward adjustments in the railroad tax;

4) Highway revenues – gasoline taxes and motor vehicle license fees – are constitutionally dedicated funds and offer no assistance to the General Fund;

5) Selective sales taxes are always possibilities for moderate increases – particularly cigarettes, alcoholic beverages and pari-mutuels – but competitive conditions are important in these fields, and rates cannot be arbitrarily increased for the sole purpose of revenue.

Maine's position in terms of the tax sacrifice formula as developed in the **First Report**, has changed somewhat since 1960 comparisons have become available. The formula (taxes as a percent of income divided by per capita personal income) assumes that in two states with identical taxes per dollar of income, the taxpayer in the state where per capita personal income is greater, will make the lesser sacrifice to meet his tax liabilities. Rankings by this index for the years 1953, 1957, and 1960 are as follows:

| | 1953 Rank[1] | | 1957 Rank[1] | | 1960 Rank | |
|---|---|---|---|---|---|---|
| | N.E. | U.S. | N.E. | U.S. | N.E. | U.S. |
| MAINE | 2 | 11 | 2 | 16 | 2 | 20 |
| New Hampshire | 3 | 24 | 3 | 30 | 3 | 29 |
| Vermont | 1 | 8 | 1 | 8 | 1 | 5 |
| Massachusetts | 4 | 30 | 4 | 36 | 5 | 38 |
| Rhode Island | 5 | 37 | 5 | 37 | 4 | 36 |
| Connecticut | 6 | 47 | 6 | 47 | 6 | 48 |

[1] As presented in the **First Report**

While Maine's index of tax sacrifice is exceeded in New England only by Vermont, its tax effort as among all the states is less than it was eight years ago – in other words, as compared to other states, personal income has increased more rapidly than taxes. 

* * *

A personal income tax has never been seriously considered in Maine. Were Maine to adopt a personal income tax and a corporation income tax it would have a tax structure similar to that of twenty other states which have the three broad-based state taxes – sales, personal income, and corporate income. No state has a tax structure wherein the general retail sales tax and the personal income tax alone are the only broad-based taxes. A personal income tax of the New Hampshire or Tennessee type that affects only the income from intangibles, would fit the Maine tax structure, without imposition of corporation and personal income taxes. As mentioned in the **Second Report**, Maine could impose such a tax as a replacement for the property tax on intangibles, although it was recommended that intangibles be exempt from property taxation, without concern for a replacement. The adoption of a personal income tax without a corporation income tax would give Maine an unusual tax structure.

* * *

# PART II

# THE TAXATION OF RAILROADS IN MAINE

The principal consideration before the Legislature is this: Both the Public Utilities Commission and the State Supreme Court, following extended hearings and careful judicial consideration, have granted substantial service relief to the railroads. If the Legislature accepts these administrative and judicial findings, will it likewise accept the policy and provide some form of tax relief?

At the last session of the Legislature, the railroads presented a plan for tax adjustment. The proposal suggested three things:

1) The present excise tax structure and the present excise tax rates to be left unchanged;

2) The tax to be reduced by an amount equal to the difference between the net railway operating income necessary to raise 5¾ percent on investment, and actual net operating income of the preceding year; and –

3) Under no conditions would the tax be less than 1 percent of the gross.

It is suggested that the above proposal be reconsidered with the following additions and modifications:

1) That the tax reduction be spread over a period of two years;

2) That in no event should the reduction fall under 2 percent of the gross transportation receipts for 1961; nor below 1 percent of gross transportation receipts for each year thereafter;

3) The overall results for the State would be as follows:

(amounts in thousands of dollars)

| | Estimated tax under proposal | | Tax savings under proposal | |
|---|---|---|---|---|
| Tax Paid (1960) | 1st Year (1962) | 2nd year (1963) | 1st Year (1962) | 2nd year (1963) |
| $1,508 | $894 | $449 | $614 | $1,059 |

In addition, it is proposed that the Legislature authorize the Division of Research and Planning of the Department of Economic Development to undertake a comprehensive study of the transportation needs of the state which would embrace the following:

The potential economic growth of the state – its location, type, and transportation needs;

The coordination of motor vehicle, bus, air and railroad transportation – intrastate and interstate;

The possibilities of railroad mergers to link Maine more strongly to the South and West.

IT IS RECOMMENDED that all railroads operating in this State be required to file a report on or before May 1 of each year with the Department of Economic Development stating capital expenditures made during the previous calendar year and specifying, with reasonable detail, the capital improvements made, including a description by type and use of new rolling stock and other equipment acquired.

IT IS FURTHER RECOMMENDED that the Department of Economic Development make inquiry into the service, equipment and rate structure provided by the railroads serving the State and report yearly to the Governor with respect to its findings, suggestions and any plans designed to meet the transportation needs of the State and to improve the competitive position of its industries.

* * *

# THE PURPOSE OF THIS STUDY:

## *To the People of the State of Maine:*

This is the third and final report authorized by the Legislative Research Committee. The *First Report* examined the history of public revenues in Maine; analyzed the economy from the standpoint of population, income and employment; and presented a picture of where Maine stands tax-wise with other states. The *Second Report* was concerned with the general property tax as it applied to both the organized and unorganized territories; developed a special section on the taxation of the " wild lands "; and analyzed the relation of the property tax to school support.

The *Third Report* emphasizes the State tax structure; suggests the possibilities and limitations for new revenue within the existing tax framework; supplements the *First Report* with more recent estimates of tax sacrifice; presents the implications of income taxation in Maine and develops a special section on railroad taxation.

This report emphasizes that since Maine is a sales tax State, it should look for new revenues from the sales tax base. For substantial sums, it may obtain the desired revenues either by increasing the rate or extending the base of the sales tax. New sources of revenue in the form of income taxes have been consistently rejected and there is little demand or need for income tax legislation at this time. The present excise taxes offer limited opportunity for substantial tax increases. Maine has a simple tax structure, but one which is well designed to meet the revenue needs of the State.

Railroad taxation was a special assignment under the legislative resolution (Resolve, 1959, c. 118) establishing the study. The *Third Report* emphasizes that the Public Utilities Commission and the State Supreme Court have granted substantial service relief to the railroads, and suggests that the legislature reexamine the proposal for tax adjustment that was before the 1959 session. In this connection a proposal has been made in this report as to possible modification of the gross receipts tax levied on railroads. The proposal of this report modifies an earlier proposal by extending this tax reduction over two years; suggests a comprehensive study of the transportation improvements; and proposes that the Department of Economic Development be authorized to inquire each year as to service, equipment and rate structures.

There is much in this report that requires thoughtful consideration. It raises difficult problems and suggests alternative ways and means for their solution. It is the opinion of the *Committee* that it will be helpful to the Legislature, and instructive to all citizens who are concerned over our financial problems.

Senator J. Hollis Wyman
*Chairman,* Legislative
Research Committee

# THE STATE TAX STRUCTURE IN MAINE

## PART I

## STATE AND LOCAL TAXES

### Present Maine Revenues

Total state and local taxes (Table 1) in Maine for the fiscal year ending June 30, 1960 were $181 million.

Of this sum the state received $92.5 million (51 per cent) and local governments $88.6 million (49 per cent).

Property taxes accounted for $88.6 million (50 per cent) of total taxes; sales accounted for $73.4 million (40 per cent); privileges, $19.2 million (10 per cent).

Ninety-eight per cent of local taxes come from property; 79 per cent of state taxes come from sales; and 55 per cent of state taxes come from the 3 per cent retail sales tax (30 per cent) and the 7 cents gasoline gallonage tax (25 per cent).

There are only four bases from which a state can raise tax money: property, income, sales, and privileges. There are only three ways in which money can be raised from these bases – by increasing tax rates, extending the present bases, or adopting new bases. Increasing the rates is the simplest method – but it raises thorny questions of equity, competitive position, and taxpayer resistance. Extending the base becomes largely a matter of seeking untaxed segments of an existing base, of increasing the existing base, or of removing present exemptions. New tax bases of any magnitude involve income taxes – both corporate and individual. It is the responsibility of a tax study to point out the possibilities of new revenue. It is the responsibility of the legislature to make the choice. While it is not possible to urge a complete tax program there are certain negative assumptions that seem almost conclusive:

1) The State of Maine has abandoned its general property tax (except in the unorganized territory) and will not return to this base for General Fund purposes;

2) Since the first state tax report in 1890, no report has urged an income tax either individual or corporate, and it is not likely that the Legislature will turn to these bases at this time;

3) In the business excise tax field, there is little hope for increased revenues of any magnitude, and if the legislature accepts the findings of the Public Utilities Commission and the State Supreme Court, it may make downward adjustments in the railroad tax;

4) Highway revenues – gasoline taxes and motor vehicle license fees – are constitutionally dedicated funds and offer no assistance to the General Fund;

5) Selective sales taxes are always possibilities for moderate increases – particularly cigarettes, alcoholic beverages and pari-mutuels – but competitive conditions are important in these fields, and rates cannot be arbitrarily increased for the sole purpose of revenue.

A state with a narrow tax base has a narrow choice of additional revenues. In 1957 the Legislature faced a situation similar to the one it now faces – more money and few choices. At that time it did the only sensible thing that it could do – it raised the consumers sales tax from 2 to 3 per cent. The base has not been greatly extended since the tax was enacted in 1951, and there are doubtless opportunities in this direction which could increase the yield. There is no avoiding one conclusion –

If Maine elects to remain a sales tax state, it is to sales that it must look for increased revenues of any magnitude.

* * *

Total state revenues (Table 2) – that is, taxes plus all non-tax revenues – amount to $139.9 million.

Of this sum, $74 million (53 per cent) goes to the General Fund – broadly speaking, the fund that pays (except highways) for the major governmental services of the state.

Fifty-seven million dollars (40 per cent) goes to the highway fund – a dedicated revenue that can be used for no other purpose.

Ten million dollars (7 per cent) is charged to special funds – funds established to support special services.

Of the 74.2 million that goes to the General Fund, $19 million (26 per cent) are non-tax revenues of which federal aid is $14 million (19 per-cent).

Taxes ($55 million) are 74 per cent of General Fund revenues. Sales taxes account for $50 million (67 per cent); and of revenues from sales taxes, the retail sales tax ($27 million) accounts for 37 per cent.

Privilege taxes ($4.4 million) account for 6 per cent of General Fund revenues.

## TABLE 1

STATE OF MAINE

STATE AND LOCAL TAXES
Fiscal Year 1960

(amounts in thousands of dollars)

| | Total | | State | | Local[1] | |
|---|---|---|---|---|---|---|
| | Amount | Per Cent | Amount | Per Cent | Amount | Per Cent |
| TOTAL TAXES | $181,181 | 100.00 | $92,547 | 100.00 | $88,634 | 100.00 |
| Property | 88,606 | 48.90 | 1,650 | 1.78 | 86,956 | 98.11 |
| General | 88,273 | 48.72 | 1,317 | 1.42 | 86,956 | 98.11 |
| Municipalities | 86,956 | 47.99 | --- | --- | 86,956 | 98.11 |
| Wild Lands | 753 | .42 | 753 | .81 | --- | --- |
| Forestry District | 564 | .31 | 564 | .61 | --- | --- |
| Special | 333 | .18 | 333 | .36 | --- | --- |
| Bank Stock | 330 | .18 | 330 | .36 | --- | --- |
| Non-resident Motor Vehicle | 3 | .001 | 3 | .003 | --- | --- |
| Sales | 73,393 | 40.51 | 73,393 | 79.31 | --- | --- |
| General 3% Retail Sales | 27,318 | 15.08 | 27,318 | 29.52 | --- | --- |
| Motor Fuel | 23,116 | 12.76 | 23,116 | 24.98 | --- | --- |
| Beer | 2,215 | 1.22 | 2,215 | 2.39 | --- | --- |
| Liquor | 6,614 | 3.65 | 6,614 | 7.15 | --- | --- |
| Cigarettes | 6,551 | 3.62 | 6,551 | 7.08 | --- | --- |
| Insurance | 2,435 | 1.34 | 2,435 | 2.63 | --- | --- |
| Public Utilities | 4,078 | 2.25 | 4,078 | 4.41 | --- | --- |
| Pari-Mutuels | 1,066 | .59 | 1,066 | 1.15 | --- | --- |
| Privilege | 19,182 | 10.59 | 17,504 | 18.91 | 1,678 | 1.89 |
| Inheritance | 3,229 | 1.78 | 3,229 | 3.49 | --- | --- |
| Motor Vehicles | 9,715 | 5.36 | 9,715 | 10.50 | --- | --- |
| Hunting and Fishing | 1,812 | 1.00 | 1,812 | 1.96 | --- | --- |
| Sardine Development | 448 | .25 | 448 | .48 | --- | --- |
| Alcoholic Beverage Licenses | 476 | .26 | 476 | .52 | --- | --- |
| Corporations | 417 | .23 | 417 | .45 | --- | --- |
| Potato Transporters | 301 | .17 | 301 | .32 | --- | --- |
| Other Licenses and Fees | 2,150 | 1.19 | 1,103 | 1.19 | 1,047 | 1.18 |
| Polls | 634 | .35 | 3 | .003 | 631 | .71 |

[1] Local taxes estimated.

Source: Department of Finance and Administration, *State of Maine Financial Report, Fiscal Year Ending June 30*, 1960 (Augusta, Me.: 1960).

Appendix I shows the history of the General Fund since 1941. It will be noticed that the largest increases in receipts were in 1951 (34 per cent) when the retail sales tax was adopted; and in 1957 (16 per cent) when the rate was increased to 3 per cent. In these same years expenditures showed increases of 2 per cent and 21 per cent respectively, indicating, in large part, additional school subsidies from the increased revenues.

During this period, the General Fund showed substantial cash balances at the end of each year, due largely to the fact that school subsidies are not paid until December 1 and that excess funds were, in a sense, dedicated to this purpose. Eight times in this period, the General Fund showed modest deficits – that is, receipts did not equal expenditures. The last session of the Legislature estimated a $317,000 surplus as of June 30, 1961. If all budget requests for 1961-

# TABLE 2

## STATE OF MAINE

### SOURCES OF STATE REVENUE BY FUNDS
Fiscal Year 1960

(amounts in thousands of dollars)

| | Total | General Fund | | Highway Fund | | Other Funds | |
|---|---|---|---|---|---|---|---|
| | Amount | Amount | Per Cent | Amount | Per Cent | Amount | Per Cent |
| TOTAL | $139,943[a] | $74,233 | 100.00 | $57,572 | 100.00 | $10,218 | 100.00 |
| Non-tax Revenues | 47,396[a] | 19,011 | 25.61 | 24,684 | 42.87 | 5,781 | 56.58 |
| From Federal Government | 38,149 | 14,078 | 18.96 | 19,820 | 34.43 | 4,251 | 41.60 |
| From cities, towns and counties | 3,958 | 1,090 | 1.47 | 2,767 | 4.80 | 101 | .99 |
| Service charges | 3,655 | 2,288 | 3.08 | 304 | .53 | 1,063 | 10.41 |
| Other revenues | 1,634[a] | 986 | 1.33 | 742 | 1.29 | 142 | 1.39 |
| Transfers from other funds | [a] | 569 | .77 | 1,051 | 1.82 | 224 | 2.19 |
| Tax Revenues | 92,547 | 55,222 | 74.39 | 32,888 | 57.13 | 4,437 | 43.42 |
| Property | 1,650 | 753 | 1.01 | 3 | .01 | 894 | 8.75 |
| Wild Lands | 753 | 753 | 1.01 | ---- | ---- | ---- | ---- |
| Forestry District | 564 | ---- | ---- | ---- | ---- | 564 | 5.52 |
| Bank Stock | 330 | ---- | ---- | ---- | ---- | 330 | 3.23 |
| Non-resident Motor Vehicle | 3 | ---- | ---- | 3 | .01 | ---- | ---- |
| Sales | 73,393 | 50,024 | 67.39 | 23,025 | 39.99 | 344 | 3.36 |
| General 3% Retail Sales | 27,318 | 27,318 | 36.80 | ---- | ---- | ---- | ---- |
| Motor Fuel | 23,116 | ---- | ---- | 23,025 | 39.99 | 91 | .89 |
| Beer | 2,215 | 2,215 | 2.98 | ---- | ---- | ---- | ---- |
| Liquor | 6,614 | 6,472 | 8.73 | ---- | ---- | 142 | 1.39 |
| Cigarettes | 6,551 | 6,551 | 8.82 | ---- | ---- | ---- | ---- |
| Insurance | 2,435 | 2,324 | 3.13 | ---- | ---- | 111 | 1.08 |
| Public Utilities | 4,078 | 4,078 | 5.49 | ---- | ---- | ---- | ---- |
| Pari-mutuels | 1,066 | 1,066 | 1.44 | ---- | ---- | ---- | ---- |
| Privilege | 17,504 | 4,445 | 5.99 | 9,860 | 17.13 | 3,199 | 31.31 |
| Inheritance | 3,229 | 3,229 | 4.35 | ---- | ---- | ---- | ---- |
| Motor Vehicles | 9,715 | ---- | ---- | 9,715 | 16.87 | ---- | ---- |
| Hunting and Fishing | 1,812 | ---- | ---- | ---- | ---- | 1,812 | 17.73 |
| Sardine Development | 448 | ---- | ---- | ---- | ---- | 448 | 4.39 |
| Alcoholic Beverage Licenses | 476 | 476 | .64 | ---- | ---- | ---- | ---- |
| Corporations | 417 | 417 | .56 | ---- | ---- | ---- | ---- |
| Potato Transporters | 301 | ---- | ---- | ---- | ---- | 301 | 2.95 |
| Other Licenses and Fees | 1,103 | 323 | .44 | 145 | .26 | 635 | 6.21 |
| Polls | 3 | ---- | ---- | ---- | ---- | 3 | .03 |

[a] Net of interfund transfers.

Source: Department of Finance and Administration, *State of Maine Financial Report, Fiscal Year Ending June 30, 1960* (Augusta, Me.: 1960).

62 were appropriated and revenues materialized as estimated, there would be a deficit of \$14.8 million; and for 1962-63, a deficit of \$16.4 million. This obviously will not happen, and the final figure cannot be known until the appropriation bill is passed. It will be noticed, however, that the adopted budget (1960-61) estimated receipts to the General Fund of \$73.1 million. Actual receipts for 1959-60 were \$78.2 million – \$5 million above the estimates. Expenditures for 1959-60 were \$74.4 million – \$1.5 million above the estimates of the "adopted budget". The 1959-60 receipts, however, included a bond issue of \$3.95 million – a non-recurring receipt – which overstates the increase as compared to the previous year. More realistically the \$78.2 million for 1959-60 becomes, therefore, \$74.2 million.

The 1959 Legislature estimated that the surplus in the General Fund on June 30, 1961 would be \$317,000 (Appendix I). Receipts have far exceeded estimates made two years ago and expenditures this fiscal year will probably be less than anticipated. In his Budget Message of January 12, 1961, Governor John H. Reed estimated that the surplus would be \$8,000,000 by June 30, 1961. This is a realistic figure based on six months of experience in the present fiscal year.

## Tax Trends Among The States

There are fairly definite cycles that have marked the development of taxation in the American states. Broadly speaking, these cycles have revolved around "relief" of the property tax. They are more easily seen in the western states because their history is shorter and their records, therefore, better; but even in the older states, they are clear in the early years of the 19th century. The **first** cycle was a matter of "supplementing" the property tax with other sources of revenue; and because early state constitutions recognized no other form of taxation, for many years these supplements were largely a matter of licenses and fees.

The **second** cycle was the "separation of state and local revenues", in which property taxes were left increasingly to local government and new sources of revenue were sought at the state level. These "new" sources were largely banks, insurance companies, public utilities and miscellaneous excises; and in most cases, the base slipped gradually from property to franchises. In the first quarter of the 20th century a new element entered – highway revenues, a revival of the benefit payments of the old toll roads and bridges, and the fore-runner of modern public authority finance.

The **third** cycle (stimulated by the depression years) was a frank "replacement" program in which large broad based taxes – income, sales and gross receipts – were established at the State level, the proceeds of which were used in state aid programs, "replacing" revenues formerly derived from the property tax. The **fourth** cycle tends to reverse the trend – local non-property taxes at county and municipal levels, designed to both further protect property and to relieve tax pressure on statewide broad-based taxes. The **fifth** cycle is only just unfolding – federal aid, to do for the states what the states did for their local subdivisions, relieving and supplementing tax bases that only provide unevenly for service needs and allow little leeway for service aspirations.

These transitions represent little fiscal theory in the academic sense. They have developed from the hard facts of revenue needs, state-local fiscal relations, the pressures of wars and depressions, and the stubborn resistance of taxpayers who are politically in a position to control the use of a tax base. They are, however, hard conditioning factors that must be considered if fiscal policy is to be expressed in the chaptered laws of a state. In considering them, it is important to remember that any proposal that is to prevail must pass a legislature and while legislators are in a rough and ready way interested in theories of incidence and equity, they must approach their problems through a group of assumptions of a most practical kind.

These are the conditions under which a legislator will work in the tax field:

> He cannot tax a base that the state does not have; it is futile to depend on a base that will not yield the necessary revenue; he cannot tax a base (at least immediately) that is constitutionally prohibited; he cannot tax a base that for a good reason or for no reason, is not acceptable to his people; and he **must not** tax a base that will impair the productivity of that base.

They are often hard adjustments to make, but on the whole, the American legislator does rather well considering that his choices are limited, and that "we, the people" often give him very little with which to work.

Now let us look briefly at the current trends and emphases in state and local taxation from the standpoint of the practitioner. **First,** tax trends:

Strengthening the property tax – improving the assessment process, seeking new formulas for uniform treatment, and classifying or exempting personal property – in 1928, property taxes accounted for 78% of all state and local tax revenues; in 1938, 58%; in 1948, 46%; in 1958, 46%.

A slow dilution of the progressive principle in taxation – state taxes are falling more heavily on lower income groups, through higher rates and fewer exemptions; and the ratio of proportional taxes to progressive taxes is steadily increasing.

Local non-property taxes – there are some 1,500 local consumers sales taxes, some 1,000 local income taxes, and an uncounted number of local gross receipts taxes. The ratio of non-property taxes to total taxes at the local level has increased from 4% in 1928 to 12% in 1958.

A steady rise in state and local tax revenues – \$7.6 billion (1938), \$13.3 billion (1948), \$30.4 billion (1958). In 1960, \$36 billion in taxes was collected by the 50 states and their political subdivisions.

**Second,** tax emphases:

Relieving the major tax base – whatever major base or bases a state may have, the tendency is to relieve it. For example, Washington, gross receipts; Wisconsin, income; New Jersey, property; California, income and sales.

An increasing ratio of state taxes to total state and local taxes – 1928, 24%; 1938, 41%; 1948, 51%; 1958, 50%.

An increasing ratio of non-property taxes to property taxes at the state level – 1928, property taxes were 24% of state taxes; 1938, 8%; 1948, 4%; 1958, 3.5%.

The adjustment of the tax structure to make it more comfortable and attractive to business.

A recent tax report (1958) in Oregon started this way:

**If the recommendations in this report are adopted, it can be said to business, to employees and to investors of capital:**

Oregon raises its public money on a balanced combination of income, property and excise taxes:

It has:

No personal tax on capital gains if the asset is held longer than one year.

No tax on manufacturers' inventories.

No property tax on industrial buildings during the period of construction.

A reasonable inheritance tax.

An established state-wide property reappraisal program.

A state-wide uniform assessment ratio.

Responsible restrictions on voting local excess levies and bond issues.

**Third,** tax practice:

Seven states including Maine depend mainly upon general retail sales taxes.

Three states (Washington, West Virginia and Michigan) depend on gross receipts and general retail sales taxes.

Two states (Nebraska and Texas) have neither income nor sales taxes.

Three states (Pennsylvania, Rhode Island and Connecticut) depend upon corporate net income and general retail sales taxes.

One state depends on a gross income tax alone – Indiana.

One state has an individual income tax on interest and dividend income only – New Hampshire.

One state has a corporation income tax only – New Jersey.

It may be observed in Table 5 that 34 states have general retail sales taxes. There are 36 states that have corporate net income taxes and 33 states impose individual net income taxes. Of the general retail sales taxes, 10 have been adopted since World War II and the remainder during the depression years. There have been only three corporate net income taxes adopted since World War II (Rhode Island, Delaware, and New Jersey) and no individual income taxes since 1937, when Maryland and Colorado enacted theirs. Nevertheless, the tax pattern of the American state consists of imposts on income and sales, and there are reasons to believe that this pattern will expand. A falling off of income tax revenue will tend to bring supplementing sales taxes as it did in the 1930's; new pressures on income and property taxes will tend towards increased sales tax pressure; and where both taxes (income and sales) are now in use, tax responsibility will tend to shift to local non-property taxes.

In working within these trends and emphases, there are factors in each environment and established patterns of thinking in every state that will greatly condition tax proposals – for example:

States are inclined, for many reasons, to take their basic revenues from wherever they can find them: Texas, severance taxes (oil); Nevada, excises (gambling); New Jersey, property and excises; New York, income and property; Washington, sales and gross receipts; California, income, sales, property, and local non-property taxes.

Such patterns, once established, are exceedingly difficult to change.

Many of the states adopted their present tax patterns in the depression years when personal incomes were low and recourse to sales and gross receipts taxes was necessary. During this period 18 states adopted individual income taxes; 17 adopted corporation income taxes; and 25 adopted retail sales taxes. There has been no state personal income tax passed since 1937, and only 3 corporate net income taxes since that year. There have been 10 consumers sales tax adoptions since 1945. All municipal income taxes are levied at flat rates. In other words, state and local taxes are moving closer toward a gross base.

No taxing jurisdiction today can live in the way to which it has become accustomed, or to which it would like to get accustomed, on a property tax base alone; nor can it unduly minimize its property tax and maintain its competitive position. State and local taxes are becoming high enough to influence industrial locations, and bidding for new business is further altering the tax patterns and modifying concepts of incidence and impact.

* * *

## Tax Comparisons Among the States

Maine's taxes are now derived 50 per cent from property, 40 per cent from sales, and 10 per cent from privileges. It is one of eleven states that have no income taxes. It is one of fourteen states that have no personal income taxes at either the state or local level. All state tax structures are regressive — and have been from the beginning. Income taxes are the only taxes that tend to reduce this condition, and (1959) in only fourteen states did income taxes account for more than 10 per cent of state and local taxes.

While Maine's tax structure is regressive there are certain factors that bring progressive elements into the base. While Maine obtains half of its tax income from property, a higher ratio than in most states, Maine has much valuable property in the hands of large corporations, and the property taxes collected from this source do not contribute to regressivity. About 25 per cent of its tax revenue comes from sales taxes on motor fuel, beer, liquor, cigarettes, insurance, public utilities, and pari-mutuels. These taxes are proportional, and there seems to be little concern anywhere that they should be designed to avoid regressive effects. The exemption of food purchased for home consumption from the general retail sales tax tends toward reducing the regressivity. The lower income groups spend larger proportions of their income for food, and this proportion again increases as the size of the family increases. The food exemption tends to shift a part of the burden to those in the upper and middle income groups.

Compared to Connecticut and Rhode Island, which also have 3 per cent retail sales taxes, with food exempt, and likewise collect about half of their taxes from property, Maine's tax structure is not unduly regressive. In fact, the income distribution in Connecticut is such, that Maine's structure is probably less regressive. Since Massachusetts, New Hampshire, and Vermont, all have personal income taxes it is likely their tax structures are more progressive. The income tax in Massachusetts is, however, at a flat rate, and the one in New Hampshire applies only to unearned income — from stocks, bonds, rents, royalties, copyrights, etc. The addition of a graduated personal income tax to Maine's tax structure would undoubtedly make it more progressive. Considering Maine's distribution of incomes, and the relatively few families with incomes of over $10,000 per year, a graduated income tax on a reasonable base and at reasonable rates would not yield a great deal of revenue.

### PER CAPITA TAXES

Per capita taxes in Maine in 1960 were $186.92 and Maine ranked 31st among all the states. State taxes were $95.48 per capita (again 31st) and local taxes were $91.44 (25th among the states). Per capita state and local taxes were highest in New York ($280.68) and lowest in Kentucky ($121.85). The Consumers Tax on liquor in Maine, and the profits of liquor monopolies in Maine and in other states, have been added to make the figures comparable. State taxes per capita were highest in Hawaii ($196.32) and lowest in New Jersey ($60.20). Local taxes per capita were highest in New York ($163.83) and lowest in South Carolina ($30.71).

Among the New England states 1960 per capita figures were as follows:

| | State and Local | | | State | | | Local | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Rank | | | Rank | | | Rank | |
| | Amount | N.E. | U.S. | Amount | N.E. | U.S. | Amount | N.E. | U.S. |
| MAINE | $186.92 | 6 | 31 | $ 95.48 | 3 | 31 | $ 91.44 | 6 | 25 |
| New Hampshire | 187.31 | 5 | 30 | 78.78 | 6 | 44 | 108.53 | 4 | 16 |
| Vermont | 229.29 | 2 | 10 | 111.78 | 1 | 16 | 117.51 | 2 | 10 |
| Massachusetts | 233.61 | 1 | 8 | 95.39 | 4 | 32 | 138.22 | 1 | 4 |
| Rhode Island | 195.97 | 4 | 25 | 100.17 | 2 | 26 | 95.80 | 5 | 21 |
| Connecticut | 207.33 | 3 | 19 | 93.92 | 5 | 34 | 113.41 | 3 | 14 |

Maine collected less total taxes per capita and less local taxes per capita than any other New England state. At the state level it collected more per capita than Massachusetts, Connecticut, and New Hampshire, but less than Vermont and Rhode Island. These are rough measures of tax differences since no account is taken of differences in either income, or prevailing prices. They are derived by dividing tax collections by the total number of permanent residents as reported by the Bureau of the Census for 1960. In cases where taxes are paid by tourists, or out-of-state residents, no allowance is made. This is an unfortunate defect, particularly in New England, where seasonal visitors are an important source of revenue.

Among the New England states, Maine and Rhode Island collected more at the state level than at the local level in 1960, although in both cases, the division was almost 50-50. A similar division exists in Vermont, except that slightly more was collected at the local than at the state level. In Connecticut where a similar situation used to prevail, local property taxes have been increasing while rates on state taxes have remained constant; 55 per cent of total taxes are raised at the local level. New Hampshire and Massachusetts – high local property tax states – raise 58 per cent and 59 per cent respectively of total taxes at the local level.

## TAXES AS A PER CENT OF INCOME

State and local taxes as a per cent of income in each state show what proportion of personal income goes to support public services. This measure is better than per capita measures since it takes into consideration the economic ability of the various states to maintain governmental operations. In 1960, for the fifty states as a group, state and local taxes were 9 per cent of total personal income. In Maine, such taxes were 9.8 per cent, and Maine ranked 21st among the states. Taxes as a per cent of income were greatest in South Dakota (13.7%), Vermont (12.4%), and North Dakota (12.0%). States that taxed away less than 7 per cent of the income of their residents were Missouri, Delaware, and Alaska.

In the New England states, taxes as a per cent of income in 1960 were as follows:

| | | Rank | |
|---|---|---|---|
| | Per cent | N.E. | U.S. |
| MAINE | 9.85 | 2 | 21 |
| New Hampshire | 9.17 | 4 | 29 |
| Vermont | 12.42 | 1 | 2 |
| Massachusetts | 9.30 | 3 | 26 |
| Rhode Island | 8.77 | 5 | 33 |
| Connecticut | 7.22 | 6 | 46 |

Among the New England states, only Vermont taxes away more of the income of its residents than Maine, although the difference is very great. In fact, in 1960 Vermont was second highest in the United States. Massachusetts and New Hampshire which rank slightly below Maine are both somewhat above national average. Rhode Island ranks fifth in New England and 33rd nationally and is not much below the national average of 9 per cent. Connecticut, the second wealthiest state in the country, can support its services by taxing away slightly more than 7 per cent of its residents' income. By this measure, the relationship of the New England states to each other has not changed since 1957 (**First Report,** Table 26). All except Connecticut, have increased the percentage of income that is taken for taxes. The increases in taxes and the increases in income varied in these states and their ranks in relation to all other states changed, but it did not affect their relation as among the New England states.

## MEASURE OF TAX SACRIFICE

While differences in tax burdens among the states are usually measured by per capita amounts or by percentages of income, these measures are not completely satisfactory. Per capita taxes indicate the amount of contribution assessed to the average person in a state without reference to his ability to pay. Taxes as a per cent of income give no indication of the amount of effort needed to produce the income or to make a portion of it available for taxes. For example, in a community where ten people can produce the same amount that it takes fifteen people to produce in another community, giving up ten per cent of production for governmental services is less of an individual burden in the smaller community.

In Maine in 1960, 9.8 per cent of the personal income of the State was used to pay state and local taxes. In Wisconsin 9.9 per cent of personal income was needed for state and local taxes. In both states, approximately the same percentage of income was paid to the state and local jurisdictions for governmental purposes. In Wisconsin, however, per capita income was $2,200 compared to $1,900 in Maine, or fully 15 per cent greater. The Wisconsin resident will make less of a sacrifice to give up 9.9 per cent of his income for taxes than will the Maine resident to give up his 9.8 per cent.

To measure the degree of sacrifice in each state, taxes as a per cent of income were divided by per capita personal income and the decimal point moved to give a readable index number. The assumption is that in two states with identical taxes per dollar of income, the resident of the state where per capita personal income is greater, will make the lesser sacrifice to meet his tax liabilities. By this measure, Maine's tax sacrifice was 5.188 in 1960 and it ranked 20th among the 50 states. Wisconsin's measure was 4.526 and it ranked 27th. Although Wisconsin ranked 15th and Maine ranked 31st in per capita taxes and Wisconsin ranked 20th and Maine 21st in the per cent of personal income taken by taxes, the degree of tax sacrifice was 15 per cent greater in Maine than in Wisconsin. The greatest sacrifice of income for taxes was required in South Dakota (9.451), Mississippi (8.107), and North Dakota (7.657). The least sacrifice was required in Delaware (2.036), Alaska (2.346), and Connecticut (2.514). The average for the 50 states in 1960 was 4.041, meaning that tax sacrifice in Maine was 28 per cent above the average.

Maine's position in terms of the tax sacrifice formula developed in the *First Report*, has changed since 1960 comparisons have become available. The formula (taxes as a per cent of income divided by per capita personal income) assumes that in two states with identical taxes per dollar of income, the taxpayer in the state where per capita personal income is greater, will make the lesser sacrifice to meet his tax liabilities. Rankings by this index for the years 1953, 1957, and 1960 are as follows:

| | 1953 Rank[1] | | 1957 Rank[1] | | 1960 Rank | |
|---|---|---|---|---|---|---|
| | N.E. | U.S. | N.E. | U.S. | N.E. | U.S. |
| MAINE | 2 | 11 | 2 | 16 | 2 | 20 |
| New Hampshire | 3 | 24 | 3 | 30 | 3 | 29 |
| Vermont | 1 | 8 | 1 | 8 | 1 | 5 |
| Massachusetts | 4 | 30 | 4 | 36 | 5 | 38 |
| Rhode Island | 5 | 37 | 5 | 37 | 4 | 36 |
| Connecticut | 6 | 47 | 6 | 47 | 6 | 48 |

[1]As presented in the *First Report*.

While Maine's index of tax sacrifice is exceeded in New England only by Vermont, its tax effort as among all the states is far less than it was eight years ago — in other words, as compared to other states, personal income has increased more rapidly than taxes.

Among the New England states, the rankings by this measure have changed very little, Maine ranks second in all three years shown, Vermont is highest, Connecticut lowest, and New Hampshire third. Massachusetts and Rhode Island exchanged fourth and fifth places between 1957 and 1960.

When compared to all states, some significant changes are indicated among the New England states. For 1953 and 1957 the ranks are among 48 states, while for 1960 the ranks are shown for 50 states. Connecticut at 47th was next to the lowest in 1953 and 1957, Delaware was 48th. At 48th in 1960, it was slightly higher than Alaska (49th) and Delaware (50th). Vermont, which was in 8th place in 1953 and 1957 increased its taxes faster than its income rose and was in 5th place in 1960.

Maine which was in 11th place in 1953, had dropped to 16th place by 1957, and to 20th by 1960. For the years shown, personal income was evidently rising faster than tax collections, when compared to other states. The transition, however, from 1957 to 1960 was not smoothly downward: in 1958 Maine ranked 11th and in 1959 it ranked 14th. Some of this may be traced directly to Maine's tax policy. For instance: Maine ranked 11th in 1953 and 1958. Fiscal Year 1953 was the first full year of the General Retail Sales Tax collections and Fiscal Year 1958 was the first year of the 3 per cent rate. In the intervening years taxes in other states climbed faster than in Maine. Unless property tax rates in the municipalities are increased greatly this year Maine's position in 1961 should be about the same as it was in 1960. Maine's tax burden is above average for the United States. This is not, however, a new experience for Maine. Maine is now in a favorable position if it wishes a modest increase in taxes at the state level. It is still pushing its tax bases, but it has experienced heavier burdens in the immediate past.

By the tax sacrifice measure, New Hampshire and Rhode Island seem to be holding their positions. New Hampshire dropped six places from 24th to 30th between 1953 and 1957 and rose to 29th in 1960. Rhode Island, which was 37th in 1953 and 1957 was 36th in 1960. Only Massachusetts has shown a consistently declining tax burden by this measure. This might indicate increases in personal income sufficient to offset any increases in taxes, or it might indicate reluctance to raise revenue to finance public services in a manner commensurate with its economic ability.

Maine is still pushing its tax bases. Its tax sacrifice in New England is exceeded only by Vermont. It has however, pushed its bases harder in the past. At the present time there is some leeway to increase taxes without exceeding its previous greatest tax effort.

# ADDITIONAL REVENUES IN MAINE INSIDE THE PRESENT TAX STRUCTURE

## The Retail Sales Tax

The retail sales tax went into effect July 1, 1951. Maine is one of 34 states that has a consumers sales tax, and one of seven states that depends upon consumers sales as its only broad based tax. The original rate was 2 per cent; it was increased to 3 per cent effective July 1, 1957. Its exemptions are, on the whole, conventional, except that it is one of eight states (out of 34) that does not include food for home consumption in the tax base; and one of 15 states that does not tax the receipts from amusements. The law has no extreme features. It follows closely the conventional structure of sales tax provisions throughout the country.

**The base:** The sales tax is imposed (with certain exemptions) upon the value of all tangible personal property sold at retail, including gas, water and electricity; and (since Sept. 1, 1959), rentals from hotels, rooming houses, tourist and trailer camp accommodations.

The use tax is imposed on the storage, use or other consumption in Maine, of tangible personal property purchased out-of-state at retail, and is measured by the sales price of the property.

**The rate:** Since July 1, 1957 – 3 per cent.
**The yield:** $28 million (1960-1961) est.
**Exemptions:** There are some 26 exemptions or classes of exemptions listed in the statute:

**Sales:** Sales for resale, and casual or isolated sales.

**Commodities, General:** Food products for human consumption, liquor, cigarettes, motor vehicle fuel, coal, oil and wood.

**Industrial:** Packaging materials, property consumed in manufacturing; returnable containers; and trade-in value of motor vehicles.

**Marine:** Ships stores and bunkering oil; boats sold to non-residents.

**Agricultural:** Seed, fertilizer, insecticides, weed killers, medicine used in agricultural production, etc., and farm tractors.

**Publications:** Newspapers, magazines and other publications, published at least quarterly; Bibles and religious articles.

## TABLE 3

### COMPARISON OF TAX REVENUES

### The General Retail Sales and Use Tax

Legal Citation:
R. S. (1954) Ch. 17

Date Established: July 1, 1951
Rate: 3% on retail sales price since July 1, 1957
2% from July 1, 1951 to June 30, 1957
Distribution:
All to General Fund
Additional Yield in 1961-62 if rate were increased to 4% of retail sales price: $9,000,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $17,122 | 6.95 |
| 1957-58 | 23,502 | 37.26 |
| 1958-59 | 24,482 | 4.17 |
| 1959-60 | 27,318 | 11.58 |
| 1960-61 est. | 28,000 | 2.50 |
| 1961-62 est. | 28,000 | ---- |
| 1962-63 est. | 28,500 | 1.79 |

### Comparison with other New England States (1959)

| | Rate | Amount (000's) | Per Capita | Per Capita per 1% of tax |
|---|---|---|---|---|
| Maine | 3% | $24,482 | $25.80 | $8.60 |
| New Hampshire | no tax | ---- | ---- | ---- |
| Vermont | no tax | ---- | ---- | ---- |
| Massachusetts | no tax | ---- | ---- | ---- |
| Rhode Island | 3% | 22,051 | 25.20 | 8.40 |
| Connecticut | 3% | 70,150 | 29.05 | 9.68 |

### Comparison with all other States (1960)

| Highest: 4% | Lowest: 2% |
|---|---|
| Pennsylvania, Washington | 12 States<br>*No Tax:* 16 States |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

**Institutions:** Hospitals, medical research centers, and churches.

**Public agencies:** Sales to federal, state and local governments or their instrumentalities; and volunteer fire departments.

**Services:** Funeral services, sales of electricity and water between a wholly-owned subsidiary and its parent corporation; and certain rentals – apartment houses, camps of certain charitable institutions, hospitals and nursing homes and certain student accommodations.

**Others:** Medicines on prescription, school meals, dime store sales, automobiles used in driver education, sold to amputee veterans, or purchased by non-residents.

The sales tax in Maine raised $27.3 million in 1960 and is estimated to raise $28 million in fiscal year 1961 (Table 3). It is anticipated that at the current rates and on the current base it will yield $28 million in 1962 and $28.5 million in 1963. As has been said, (Tables 1 and 2) it accounts for almost 30% of the total tax collections of the state government, 15% of total state and local tax collections, and provides 36% of the revenues of the General Fund.

The simplest way to increase sales tax revenue on the present base is to increase the rate. If the rate were raised from 3% to 4% an additional $9 million per year would be obtained. If the rate were raised from 3% to 3½%, an additional $4.5 million per year would be realized. A 4% rate, however, would place Maine among the highest sales tax rates in the country. At the present time only Michigan, Pennsylvania and Washington have 4% state rates, although an effective 4% rate prevails in most California municipalities and some places in Alabama and Mississippi where a local 1% rate is combined with a state 3% rate. There is a 3½% rate in Hawaii, in almost all of Illinois, and in some cities in Alabama, Arizona and Mississippi. At the present time (Table 5) Maine's 3% rate matches the state rate of 16 other states.

Aside from placing Maine among the highest sales tax rates in the country, a 4 per cent rate has other implications. Sales taxes throughout the country will doubtless increase over the next 10 years. In two years Maine will face similar pressures for new revenue. A local supplement to the state sales tax would add still further to a rate increase for any municipality adopting such a policy. The choice is this: Would a combination of rate increase and base extension be preferable to a rate increase alone, plus, if necessary, rate increases in other taxes? Retailers and legislators may be reluctant to accept a fractional rate (say 3½ per cent), but there are no difficulties under the bracket system as now used in Maine. It is only necessary to change the brackets and apply (as at present) even cents to each bracket. The question of extending the base is difficult. As was pointed out in the **Second Report**, exemptions, once adopted, are among the most stubborn factors in legislation. A glance, moreover, at the classified exemptions listed above, will indicate that only a few items have important revenue possibilities – namely: food, amusements, gasoline, the full purchase price of automobiles, cigarettes and liquor.

The largest and most significant of the present exemptions is food purchased for off-premises consumption. The purpose of this exemption is to reduce the regressive effect of the sales tax. The theory is that since the percentage of personal income spent for food declines as income increases, the lower income groups will pay less sales taxes in proportion to income than those in **slightly** higher income groups. This tends to make the tax " less regressive ". To raise the same amount of money, a higher rate will be required when food is exempt, but the tax impact will fall a little more heavily on the higher income groups, because the ratio of food to total expenditures in these groups is less than in the lower income brackets. If a state is primarily interested in revenue, it will not exempt food. If it is primarily interested in " less regression " it will exempt food. Nevertheless, the tax liabilities are comparatively small under a consumers sales tax. This is, indeed, one of the purposes of a " broad based tax ". Its impact is probably no more severe than a seven-cent gasoline tax, but in addition to economic theory, there is a feeling that so essential a commodity as food should not be subject to a tax requirement. It is, however, a costly exemption. Only 9 states (Table 4) have accepted this policy, but once accepted, no state has abandoned it. It is not expected that Maine will abandon it, but dollar-wise it will make little difference to the General Fund whether the state goes to a 4% rate or removes the food exemption. The additional revenue would be about the same – $9 million.

Although most sales tax states include admissions to places of entertainment in their base (Table 4), 15 states, including Maine, exempt them from the tax. The reason for this varies. In states applying the sales tax to sales of tangible personalty exclusive of services, admissions are, by definition, omitted. This is the case in Maine. Other states have separate admission taxes, usually at higher rates than the sales tax rate, and hence exempt admissions from the sales tax. An extension of the sales tax to cover admission to amusements (now exempt) would yield $450,000 at the present 3 per cent rate. This estimate assumes a broad definition of amusements, including, but not limited to, plays, motion pictures, dances, concerts, athletic events, racing, amusement rides, carnivals, and museums, regardless of the status (profit or non-profit) of the operator. It also assumes that only admissions of less than 15c (the present sales tax bracket) would be exempt.

**If the tax base were broadened to include admissions to all types of amusements, approximately $450,000 per year would be added in revenue for the General Fund.**

At the present time Maine collects a sales tax only on gasoline not subject to the 7c gallonage tax, that is, gasoline not used for highway purposes. If the tax were applied to the retail price of gasoline exclusive of federal and state taxes, approximately $2 million a year could be raised. Since under the Maine Constitution (Art. IX, Sec. 19) gasoline revenues are dedicated to the Highway Fund, none of the

# TABLE 4

## STATE SALES AND GROSS RECEIPTS TAXES STATE RATES ON SELECTED CLASSIFICATIONS

## MAJOR PROVISIONS AS OF JANUARY 1, 1961

(all rates stated in per cent)

| | Type of Tax | Retail Sales | Food for Home Use | Amuse-ments | Restaurant Meals | Public Utlities | Room Rentals | Others |
|---|---|---|---|---|---|---|---|---|
| Alabama | RS | 3 | 3 | 3 | 3 | none | 3 | 1.5,3 |
| Alaska | GR | .5,.25 | .5,.25 | .5,.25 | .5,.25 | none | none | .5,.25 |
| Arizona | GR | 3 | 3 | 3 | 1.5 | 1.5 | 3 | .375-3 |
| Arkansas | RS | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| California | RS | 3 | none | none | 3 | none | none | 3 |
| Colorado | RS | 2 | 2 | none | 2 | 2 | 2 | 2 |
| Connecticut | RS | 3 | none | none | 3 | none | 3 | 3 |
| Florida | RS | 3 | none | 3 | 3 | none | 3 | 3 |
| Georgia | RS | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Hawaii | RS | 3.5 | 3.5 | 3.5 | 3.5 | none | 3.5 | .75-3.5 |
| Illinois | RS | 3 | 3 | none | 3 | none | none | 3 |
| Indiana | GR | .375 | .375 | 1.5 | .375 | 1.5 | 1.5 | .375,1.5 |
| Iowa | RS | 2 | 2 | 2 | 2 | 2 | none | 2 |
| Kansas | RS | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Kentucky | RS | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Louisiana | RS | 2 | 2 | 2 | 2 | none | 2 | 2 |
| MAINE | RS | 3 | none | none | 3 | 3 | 3 | 3 |
| Maryland | RS | 3 | none | none | none | 3 | 3 | 3 |
| Michigan | RS | 4 | 4 | none | 4 | 4 | 4 | 4 |
| | GR | .775 | .775 | .775 | .775 | .2 | .775 | .775 |
| Mississippi | GR | 3 | 3 | 3 | 3 | 3 | 3 | .125-3 |
| Missouri | RS | 2 | 2 | 2 | 2 | 2 | 2,3 | 2 |
| Nevada | RS | 2 | 2 | none | 2 | none | none | 2 |
| New Mexico | GR | 2 | 2 | 2 | 2 | 2 | 2 | .25-2 |
| North Carolina | RS | 3 | none | none | 3 | none | 3 | 1,3 |
| North Dakota | RS | 2 | 2 | 2 | 2 | 2 | none | 2 |
| Ohio | RS | 3 | none | none | 3 | none | 3 | 3 |
| Oklahoma | RS | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Pennsylvania | RS | 4 | none | none | 4 | 4 | 4 | 4 |
| Rhode Island | RS | 3 | none | none | 3 | 3 | none | 3 |
| South Carolina | RS | 3 | 3 | none | 3 | 3 | 3 | 3 |
| South Dakota | RS | 2 | 2 | 2 | 2 | 2 | none | 2 |
| Tennessee | RS | 3 | 3 | none | 3 | none | 3 | 3 |
| Utah | RS | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Washington | RS | 4 | 4 | none | 4 | none | 4 | 4 |
| | GR | .44 | .44 | 1 | .44 | .6-3.6 | 1 | .01-1 |
| West Virginia | RS | 2 | 2 | 2 | 2 | none | 2 | 2 |
| | GR | .5 | .5 | .65 | .5 | 1.3-5.2 | 1.05 | 1.3-7.8 |
| Wyoming | RS | 2 | 2 | 2 | 2 | none | none | 2 |

RS - Retail Sales Type GR - Gross Receipts Type

Source: Commerce Clearing House, Inc. *All-State Sales Tax Reporter,* looseleaf reporting service (Chicago, Ill.: 1960).

revenue from an extended sales tax would go to the General Fund, unless it were possible to further relieve the General Fund of present charges related to highway services.

Although originally the sales tax was applied to the full purchase price of a motor vehicle, the law was amended (1953) so that, if another car was offered as a trade-in, the tax applied only to the purchase price above the trade-in value. This provision is not unusual. Kentucky included such an exemption in its sales tax law effective July 1, 1960, and Kansas so amended its sales tax effective April 1, 1960. Some states apply lower rates to sales of automobiles than to other tangible property. For example, North Carolina, Alabama, and Mississippi have 3% sales tax rates but the rate applicable to automobiles is respectively 1%, 1½%, and 2%. The reason for exemption or rate reduction is either to reduce the amount of sales tax that would have to be paid at any one time by a single individual (automobiles are the largest single item of purchase for most people) or to assist dealers in competition with sales in neighboring states. Both reasons, however, seem of doubtful importance. Merely because a tangible asset is offered in lieu of dollars is no reason for exemption. Maine residents who go out-of-state to purchase a motor vehicle, pay the use tax when they register the vehicle in Maine. The trade-in allowance exemption does not mesh well with the exemption of food for home consumption. In the case of food, it is primarily the lower income groups that are alleged to benefit from the exemption. In the case of automobiles, the greatest benefit goes to those purchasing new cars and using valuable used cars as trade-ins. The exemption is of doubtful validity.

**If the tax base were broadened to include the full sales value of all motor vehicles, approximately $1,500,000 per year would be added in revenue for the General Fund.**

Cigarettes are exempt from the general retail sales tax in Maine since they are specially taxed at 5c per pack. Of the 36 sales tax states (Table 4), 13 exempt cigarettes from the retail sales tax, including Colorado, which has no cigarette tax. The sales tax states nearest to Maine – Connecticut, Rhode Island, and Pennsylvania, exempt cigarettes. It would seem that cigarette tax rates would be higher in states which exempt cigarettes from the sales tax. Nationwide, however, there is no clearcut pattern. For a state that has both a sales tax and a cigarette tax it is cheaper to collect all taxes on the sales of cigarettes by the cigarette excise. Extending a sales tax to cigarettes is, however, usually a smaller tax increase than a 1c or ½c per pack cigarette tax. The sales tax, moreover, introduces a certain amount of equity into the picture, since the tax on the higher-priced brands will be greater than on the popular-priced brands, a situation that does not prevail where the rate is stated in terms of the number of cigarettes regardless of selling price. If the Maine 3 per cent retail sales tax were extended to include cigarettes and the tax applied to the selling price (exclusive of Federal and State taxes) approximately $600,000 could be raised annually, if consumption continued at present rates and prices. If the tax were applied to the selling price including Federal and State taxes (8c and 5c a pack respectively), an annual yield of $1,100,000 could be expected.

If the Maine 3% sales tax were to include the sale of liquor, an additional $750,000 per year could be realized, at current volume and prices. The general retail sales tax applies, at present, to the sale of malt beverages by private vendors and to the sale of mixed drinks by clubs and restaurants. As in the case of cigarettes, however, if the state desired more income from the sale of liquor it would be cheaper to raise the mark-up than to apply the sales tax. It would, however, not be difficult to add the sales tax to the retail price, either at the time of sale or by incorporating it in the selling price, and settling accounts between the Maine Liquor Commission and the Bureau of Taxation through bookkeeping entries in the appropriate funds. Of the 16 liquor monopoly states, ten have state sales taxes. Seven of these ten states apply the sales tax to liquors, although there is some variation in the base, that is, the base may be the full selling price or the selling price less Federal and State excise taxes, and may or may not include all wines and spirits sold by state stores. Only Maine, Alabama, and Wyoming exempt all wines and liquors sold in state stores from the state general retail sales tax.

Retail sales of liquor during Fiscal Year 1959 were $23 million and during 1960 were $24 million. It is estimated that during 1962 and 1963 sales of alcoholic beverages at retail in the stores operated by the Maine State Liquor Commission will be about $25 million a year.

**If the tax base were broadened to include sales at State stores of alcoholic beverages, approximately $750,000 per year would be added in revenue for the General Fund.**

Fuel used for domestic cooking and heating is exempt from the Maine sales tax. This is an item similar to food for home consumption. If the food is not taxed at the time of purchase, the costs of preparing it are given similar treatment. Costs of fuel (like food) are larger in the budgets of low income families and tenants of cheaper apartments usually purchase their own fuel. The additional tax would, however, be negligible in dollars. It is estimated that if the present exemption for fuel used for domestic purposes were eliminated, it would result in an additional yield of approximately $600,000 per year.

Seed, feed, and fertilizer used in agricultural production are exempt from the sales tax. This is primarily a subsidy to agriculture although there may be some thought that such items will eventually be resold in another form. This exemption is almost universal among the sales tax states, and some states tend to be liberal in their construction of commodities that will be used in agricultural production. In the case of Maine, about $2 million annually might be raised if the exemptions were eliminated.

There are many small items of exemption which might be brought under the sales tax law. They would, however, yield little revenue, many would raise many administrative problems, and endless argument. Some of these items are: materials consumed or destroyed in manufacture, magazines and newspapers and other periodicals, prescription medicine, school meals, funeral services and materials, Bibles and religious items, and containers and packaging materials. Perhaps a million dollars a year might be gleaned from all these small sources, with a substantial part of the yield going for administrative costs. In addition, all government purchases, Federal, State, and local, are exempt, as are sales to schools, hospitals, and volunteer fire departments. Most such sales could not be brought under the sales tax, either legally or practically, – even if desirable.

Another possibility for raising revenue under the sales tax is to apply different rates to certain classes of taxable commodities. For instance, when Michigan's sales tax rate was 3%, the rate applicable to transient room rentals was 4%. In New York City, where the city sales tax rate is 3%, a rate of 5% applies to restaurant meals of over $1 and to alcoholic beverages consumed on the premises, and a rate of 5% applies to transient room rentals. Although some slight additional administrative expenses would be involved, Maine could consider a rate of 4% for luxury-type meals and room rentals, while retaining a basic 3% sales tax, or set a rate of 5% for such categories if a basic rate of 3½% or 4% were to be enacted.

Since the general retail sales tax accounts for 36% of the total revenue of the General Fund and for about half of the undedicated revenue of the General Fund, it is the basic source for State revenues. In Maine, a rather complete separation of tax sources has taken place – municipalities live almost exclusively on property taxes (poll taxes and local licenses account for less than 2% of local tax revenue) while the State lives on sales and privilege taxes. In some states, where the separation has not been carried to the same degree, sales tax revenues are shared with local units of governments. In ten states, part of the state sales tax is returned to the localities, usually the place of origin. Michigan has (by constitutional provision) carried this policy to the extreme, and only a small portion of the sales tax is retained by the state for general fund purposes.

As may be noted in Table 5, there are nine states that have local retail sales taxes in addition to the state sales tax. In the four states imposing a 2% state rate, the local rate is 1% in three states, Colorado, Louisiana, and New Mexico, and ½% in Utah. In the five states imposing a 3% state rate, the local rate is 1% in California, ½% in Illinois and Arizona, and both 1% and ½% in Alabama and Mississippi. In California and Illinois there are only a few municipalities that do not impose the sales tax, and those states have, therefore, been classified under the total state and local rate in Table 5. In four of the nine states (Alabama, Arizona, Colorado, and Louisiana) the city and county sales taxes are locally-administered. In four others (Illinois, Mississippi, New Mexico, and Utah), the locality imposes the local tax (1% or ½% on the state base, sometimes with minor exceptions) and the state collects the tax, and remits the local share to the appropriate jurisdiction. In California, both systems prevail, but less than a dozen cities collect their own sales taxes. Three states permit local sales tax rates up to ½% (Arizona, Illinois, and Utah), and all communities imposing the tax use the maximum rate. The other six states permit local sales taxes up to 1%. In four of these (California, Colorado, Louisiana, and New Mexico) all localities imposing the tax use the maximum rate. In two states, Alabama and Mississippi, some municipalities have imposed a 1 per cent rate, while others have used one half of one per cent.

Were the Legislature to authorize a local nonproperty tax in the form of a sales tax, it is suggested that it be established upon these principles: 1) it should be identical in structure with the state sales tax; 2) it should be collected by the state and returned to the municipality – except for an appropriate service charge; 3) the maximum rate should be one half of one per cent; 4) it should be applicable to any municipality that cares to adopt it; 5) local adoption should be by a) the locally governing body; b) by popular

## TABLE 5

### COMPARATIVE STATE SALES TAX RATES
### GENERAL RETAIL SALES AND GROSS RECEIPTS TAXES

Thirty-six States
January 1, 1961

| Rates Less than 1% on Gross (8 states) | | 2% rate (12 states) | 2½% rate (1 state) | 3% rate (15 states) | 3½% rate (2 states) | 4% rate (4 states) |
|---|---|---|---|---|---|---|
| On Retail Sales | | | | | | |
| West Virginia | .50% | Colorado[2] | Kansas | Alabama[2,3] | Hawaii | California[5] |
| Washington | .44 | Iowa | | Arizona[3] | Illinois[4] | Michigan |
| Michigan | .39[1] | Louisiana[2] | | Arkansas | | Pennsylvania |
| Indiana | .375 | Missouri | | Connecticut | | Washington |
| Alaska | .32[1] | Nevada | | Florida | | |
| On other than Retail Sales | | New Mexico[2] | | Georgia | | |
| Arizona | varies | North Dakota | | Kentucky | | |
| New Mexico | varies | Oklahoma | | MAINE | | |
| Mississippi | varies | South Dakota | | Maryland | | |
| | | Utah[3] | | Mississippi[2,3] | | |
| | | West Virginia | | North Carolina | | |
| | | Wyoming | | Ohio | | |
| | | | | Rhode Island | | |
| | | | | South Carolina | | |
| | | | | Tennessee | | |

1 Estimated average rate.
2 Additional 1% local sales tax in some places.
3 Additional ½% local sales tax in some places.
4 Includes ½% local sales tax in almost all communities.
5 Includes 1% local sales tax in almost all communities.

Source: Commerce Clearing House Inc. *All-State Sales Tax Reporter*, looseleaf reporting service (Chicago, Ill.: 1960).

referendum; or c) by both – the method to be determined by the local governing body. Estimates of the annual yield from a ½ per cent local sales tax in selected cities are as follows:

| | |
|---|---|
| Auburn, **Androscoggin** | $120,000 |
| Augusta, **Kennebec** | 120,000 |
| Bangor, **Penobscot** | 320,000 |
| Bath, **Sagadahoc** | 45,000 |
| Biddeford, **York** | 100,000 |
| Brunswick, **Cumberland** | $ 75,000 |
| Lewiston, **Androscoggin** | 220,000 |
| Portland, **Cumberland** | 610,000 |
| Presque Isle, **Aroostook** | 85,000 |
| Rockland, **Knox** | 65,000 |
| Saco, **York** | 20,000 |
| Sanford, **York** | 50,000 |
| South Portland, **Cumberland** | 65,000 |
| Waterville, **Kennebec** | 150,000 |
| Westbrook, **Cumberland** | 50,000 |

# Other Taxes

The general property tax (Table 6) is the oldest tax in the United States that still produces large amounts of revenue. At one time it was the principal support of state and local governments, and until 1943 raised more money annually than any other tax. For the past three decades, however, the states have been withdrawing from this base, and leaving it to local governments for their exclusive use. Maine took this step in 1951, and since that time has raised no money from general property for the support of the general fund.

In the unorganized areas, the state collects the statewide 7¼ mill tax and the school taxes. These are deposited in the general fund. The mill tax is undedicated but the school tax is dedicated to school purposes. The forestry district taxes collected on the "wild lands" are placed in a special revenue fund, where they are commingled with the small amount of property taxes collected from the municipalities that belong to the forestry district. The sum of the general fund revenues and the forestry district taxes is included as the state yield of general property taxes in Table 6. The amounts are shown separately in Tables 1, 2, Appendix V, and Appendix VI. The county taxes and road repair taxes collected in the unorganized areas are placed in a special agency fund until distributed to the local government; these amounts are included under local yields in Table 6.

In the **Second Report** (page 54) it was recommended that school costs in the unorganized area be defined as an area responsibility and that a uniform property tax levy be applied sufficient to provide for the full support of the public schools. In the event that this recommendation is enacted into law, the school taxes in the "wild lands" will be increased approximately $235,000 per year during the next biennium. The estimates of state property taxes shown in Table 6 have not taken this projected change into account. Should the contemplated law be enacted, the estimate for 1961-62 and 1962-63 should be revised up to $1,459,000 from the $1,224,000 now shown. This would mean an 18.23 per cent increase in state property tax yields between 1960-61 and 1961-62 instead of the .81 per cent decrease now given in Table 6.

The main source of support for local governments in Maine is the general property tax. The county, city, town, plantation, and school districts determine their probable revenues from other sources, and raise the balance of required revenue by levying on all property within their jurisdiction. All property taxes are collected by the municipality, which in turn distributes the required levies to the county, school district, and forestry district. Estimates of the total amount of general property taxes (including penalties and interest) received by local government (regardless of whether they were collected in the first instance by the State or a municipality) are shown as local yields in Tables 1, 6, and Appendix V.

The increase in property taxes to finance local governmental services, particularly schools, is clearly shown on Table 6. It is estimated that $95 million will be collected from this source in 1961. Among the New England states, Maine collects less per capita than the other states, but the value of property per capita may also be low in Maine. As Maine residents demand more services from local government – education, police and fire protection, street maintenance, sanitation, welfare, etc., they turn to the general property tax to provide the revenue. As recently as 1953, all Maine counties and municipalities raised only $53 million from general property. It is probable that in another year or two, double that amount will be raised. This tax has responded to the needs of local governments in the past and it is likely to respond in the future; but increases in state aid, especially for schools, and the possible use of local sales or gross receipts taxes may tend to restrain the impact.

Cigarette revenue (Table 7) has been increasing 3% or 4% a year, although the tax has remained constant at 5c a pack since 1955 (Table 7). In 1959 two other New England states also taxed cigarettes at 5c a pack, two taxed at 3c a pack, and the Massachusetts tax was 6c. Maine collected $1.30 per capita per 1c of tax in 1959, which was about average for New England. Except for New Hampshire, the range was from $1.23 in Massachusetts, the highest rate state, to $1.42 in Connecticut, the lowest rate state. Because of its low rate, and its fortunate geographical position of bounding Maine, Vermont, and Massachusetts, New Hampshire raised $2.16 per capita per 1c of tax that year. Since 1959, Vermont has raised its tax to 7c, Rhode Island raised its tax to 6c, and because of the rise in prices, the effective tax rate in New Hampshire is now 3½c. Maine's cigarette tax

# TABLE 6

## COMPARISON OF TAX REVENUES

### The General Property Tax

Legal Citation:
R.S. (1954) Ch. 91-A

Date Established: 1845

Rate:
Fixed annually, as a percentage of the assessed valuation of property, to meet budget requirements of counties, cities, towns, plantations, school districts, and the forestry district in the organized municipalities and to meet authorized levies in the unorganized areas.

| | STATE | | LOCAL | |
|---|---|---|---|---|
| Fiscal Year | Yield (000's) | Annual Change in % | Yield[a] (000's) | Annual Change in % |
| 1956-57 | $1,140 | 5.67 | $68,925 | 8.97 |
| 1957-58 | 1,265 | 11.00 | 77,943 | 13.08 |
| 1958-59 | 1,238 | −2.15 | 79,537 | 2.04 |
| 1959-60 | 1,317 | 6.43 | 86,956 | 9.33 |
| 1960-61 est. | 1,234 | −6.35 | 95,000 | 9.25 |
| 1961-62 est. | 1,224 | −.81 | | |
| 1962-63 est. | 1,224 | ——— | | |

Distribution:
In organized municipalities, all to the municipality, and redistributed in part to county, school district, and forestry district, to meet their budget requirements. In unorganized territory, undedicated and school taxes to the state General Fund, county taxes and road repair taxes to special Agency Funds, and forestry district taxes to a Special Revenue Fund to meet the levies of each jurisdiction.

### Comparison with other New England States (1959)

| | Population Estimate July 1, 1959 | Amount[b] | Per Capita |
|---|---|---|---|
| Maine | 949,000 | $ 80,775 | $ 85.12 |
| New Hampshire | 592,000 | 60,476 | 102.16 |
| Vermont | 372,000 | 37,879 | 101.83 |
| Massachusetts | 4,951,000 | 659,854 | 133.28 |
| Rhode Island | 875,000 | 75,100 | 85.83 |
| Connecticut | 2,415,000 | 265,787 | 110.06 |

[a]Derived from estimates of local general property tax revenue prepared by the U. S. Bureau of the Census.
[b]Total state and local general property tax revenue as estimated by the U. S. Bureau of the Census.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition*, and *Maine Tax Reporter*, looseleaf reporting services (Chicago, Ill.: 1960).

Department of Finance and Administration, *State of Maine Financial Report*, 1957-1960 and unpublished reports (Augusta, Me.: 1960).

Bureau of Taxation, *Sixty-Eighth Annual Report*, 1958 and unpublished reports (Augusta, Me.: 1960).

U.S. Bureau of the Census, *Governmental Finances in* 1958, 1959 (Oct. 28, 1959, Sept. 30, 1960), and other published reports.

## TABLE 7

### COMPARISON OF TAX REVENUES

Selective Sales Tax

Cigarettes

Legal Citation:
R. S. (1954) Ch. 16, sec. 200-221

Date Established: July 1, 1941
Rate: 5c per pack since July 1, 1955
Distribution:
All to General Fund
Additional Yield in 1961-62 if rate were increased 1c per pack:
$1,300,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $5,759 | 3.06 |
| 1957-58 | 5,903 | 2.49 |
| 1958-59 | 6,188 | 4.83 |
| 1959-60 | 6,551 | 5.87 |
| 1960-61 est. | 6,750 | 3.04 |
| 1961-62 est. | 6,950 | 2.96 |
| 1962-63 est. | 7,150 | 2.88 |

Comparison with other New England States (1959)

| | Rate per pack | Amount (000's) | Per Capita | Per Capita per 1c of tax |
|---|---|---|---|---|
| Maine | 5c | $ 6,188 | $6.52 | $1.30 |
| New Hampshire | 3c[a] | 3,842 | 6.48 | 2.16 |
| Vermont | 5c | 2,496 | 6.70 | 1.34 |
| Massachusetts | 6c | 36,622 | 7.39 | 1.23 |
| Rhode Island | 5c | 5,705 | 6.52 | 1.30 |
| Connecticut | 3c | 10,277 | 4.25 | 1.42 |

[a]15% of retail selling price, estimated at 3c per pack.

Comparison with all other States (1960)

| | |
|---|---|
| *Highest:* 8c per pack<br>Louisiana, Montana, Texas | *Lowest:* 2c per pack<br>Arizona, Missouri<br>*No Tax:* Colorado, North Carolina, Oregon |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

rate is now lower than that prevailing in half of the New England states. Because of the tax differential, it is common knowledge that many Maine residents and many people travelling to Maine purchase their cigarettes while in New Hampshire; but raising the rate is not likely to increase this practice. It is therefore estimated that an increased yield of $1,300,000 could be anticipated if the tax were raised from 5c to 6c per pack. At present, ten states impose 6c rates, Vermont is the only state at 7c, and three states use an 8c rate.

The state liquor monopoly (Table 8) has been yielding over $6 million a year. There have been no changes since 1955, and the slightly increased revenues are due to price changes and changes in consumption. If prices and consumption change, as anticipated during the next few years, there may be a slight decrease in revenue. Liquor revenues in the New England monopoly states (Maine, New Hampshire, and Vermont) have been made comparable (Table 8) with liquor tax revenues in the license states (Massachusetts, Rhode Island, and Connecticut) for

## TABLE 8

### COMPARISON OF TAX REVENUES

Selective Sales Tax

Liquor

Legal Citation:
R. S. (1954) Ch. 61

Date Established: June 30, 1933

Rate:
Liquor is marked up 61% on cost (called Consumer's Tax) and in addition a gallonage tax of 24c, 75c, or $5.00 is applied to wines, since Aug. 20, 1955.

Distribution:
All to General Fund

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $5,865 | 7.40 |
| 1957-58 | 5,963 | 1.67 |
| 1958-59 | 6,205 | 4.05 |
| 1959-60 | 6,614 | 6.58 |
| 1960-61 est. | 6,800 | 2.95 |
| 1961-62 est. | 6,646 | −2.39 |
| 1962-63 est. | 6,627 | − .28 |

Comparison with other New England States (1959)

| | Amount[1] (000's) | Per Capita |
|---|---|---|
| Maine | $ 6,247 | $6.58[2] |
| New Hampshire | 5,729 | 9.68[2] |
| Vermont | 1,781 | 4.79[2] |
| Massachusetts | 19,844 | 4.01 |
| Rhode Island | 2,339 | 2.67 |
| Connecticut | 8,471 | 3.51 |

[1] Includes licenses.
[2] Monopoly (control) states – other license (open) states.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).
United States Brewers Foundation, Inc., *Brewers Almanac,* 1960 (New York, N. Y.: 1960), p. 100.

1959. Per capita revenues are higher in the monopoly states than in the license states. This is usual throughout the country, since monopoly states obtain all their liquor revenues through one source. In license states, however, in addition to liquor excises, the states and their local governments also collect property taxes, income taxes, and sales taxes from those engaged in the liquor business. Maine raised $6.58 per capita from liquor taxes in 1959 and was exceeded in New England only by New Hampshire – $9.68 per capita. As with cigarettes, New Hampshire's geographical position and pricing practices bring it liquor revenue all out of proportion with its in-state consumption. There is probably some leeway for additional revenue from this base, but judged against Vermont's yield of $4.79 per capita (where problems and practices are similar) not too much.

The Maine tax on beer of 16c per gallon was set 24 years ago. In recent years this tax has yielded about $2 million annually. For a few years prior to 1960 the revenues declined slightly, but they are expected to hold their own for the next few years. Maine's tax rate is higher than that of other New England states, except Vermont, where the rate is 20c.

# TABLE 9

## COMPARISON OF TAX REVENUES

### Selective Sales Tax

### Beer

Legal Citation:
R. S. (1954) Ch. 61

Date Established: June 30, 1933

Rate:
$4.96 per barrel or 16c per gallon since Feb. 25, 1937. Rate was 4c per gallon from June 30, 1933 - Feb. 24, 1937.

Distribution:
All to General Fund

Additional Yield in 1961-62 if rate were increased 1c per gallon: $140,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $2,109 | −2.93 |
| 1957-58 | 2,040 | −3.26 |
| 1958-59 | 2,033 | − .33 |
| 1959-60 | 2,215 | 8.95 |
| 1960-61 est. | 2,125 | −4.06 |
| 1961-62 est. | 2,165 | 1.88 |
| 1962-63 est. | 2,188 | 1.06 |

Comparison with other New England States (1959)

| | Rate | | | | |
|---|---|---|---|---|---|
| | Per gallon (in c) | Per barrel (in $) | Amount[1] (000's) | Per Capita | Per Capita per 1c of tax |
| Maine | 16 | 4.96 | $2,468 | $2.60 | $ .16 |
| New Hampshire | 9.68 | 3.00 | 1,203 | 2.03 | .21 |
| Vermont | 20 | 6.20 | 1,209 | 3.25 | .16 |
| Massachusetts | 6.45 | 2.00 | 5,421 | 1.09 | .17 |
| Rhode Island | 4.84 | 1.50 | 840 | .96 | .20 |
| Connecticut | 3.23 | 1.00 | 1,553 | .64 | .20 |

Comparison with all other States (1960)

| *Highest:* $19.84 per barrel or $ .64 per gallon | *Lowest:* $ .62 per barrel or $ .02 per gallon |
|---|---|
| South Carolina | Wyoming, Missouri |

[1] Includes licenses.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).

Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).

U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

United States Brewers Foundation, Inc., *Brewers Almanac,* 1960 (New York, N. Y.: 1960), p. 100.

It may be noted (Table 9) that collections per capita per 1c of tax are least in Maine and Vermont ($.16), the states where the rate is highest. The states with the lower tax rates collect more capita per 1c of tax. Again, the exception of New Hampshire must be noted – it has the highest collections per capita per 1c of tax, even though its rates are far from the lowest in New England. The great differences in tax rates on beer throughout the country are indicated by the fact that the highest rate (South Carolina) is 64c per gallon, whereas the lowest rate (Wyoming and Missouri) is 2c per gallon. Even in New England the variation is from 3.23 cents to 20 cents. Maine can expect to raise $140,000 for each 1c increase in the tax rate.

# TABLE 10

## COMPARISON OF TAX REVENUES

### Selective Sales Tax

### Pari-mutuels

Legal Citation:
R. S. (1954) Ch. 86 (Harness)
R. S. (1954) Ch. 87 (Running)

Date Established: April 4, 1935, Harness Racing; June 28, 1950, Running Racing.

Rate:
7% of total wager pools since August 28, 1957

Distribution:
All to General Fund, 6% undedicated, 1% dedicated to Agricultural Stipend.

Additional Yield in 1961-62 if rate were increased 1%: $125,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $ 754 | 8.08 |
| 1957-58 | 891 | 18.07 |
| 1958-59 | 978 | 9.76 |
| 1959-60 | 1,066 | 9.08 |
| 1960-61 est. | 1,085 | 1.71 |
| 1961-62 est. | 1,042 | −3.96 |
| 1962-63 est. | 964 | −7.46 |

### Comparison with other New England States (1959)

| | Rate | Amount (000's) | Per Capita | Per Capita per 1% of tax |
|---|---|---|---|---|
| Maine | 7% | $ 982[a] | $1.03 | $ .15 |
| New Hampshire | 7% | 4,061 | 6.86 | .98 |
| Vermont | no racing | ---- | ---- | ---- |
| Massachusetts | 7% | 13,018 | 2.63 | .38 |
| Rhode Island | 8% | 5,948 | 6.80 | .85 |
| Connecticut | no racing | ---- | ---- | ---- |

a) Census figure disagrees slightly with Maine Controller's figure.

### Comparison with all other States (1960)

| | |
|---|---|
| Highest: New York<br>9%, Saratoga Track<br>10%, Long Island Tracks | Lowest: Nebraska, New Mexico<br>Nebraska, 2% after 1st million<br>New Mexico, ½% |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

In view of Maine's position of second highest tax rate in New England, and its inclusion of beer in the sales tax base, the rate should probably not be increased at this time.

Pari-mutuel taxes brought Maine over $1 million in 1960 (Table 10) and it is anticipated that revenues will remain at that level for the next few years. Pari-mutuel betting on harness racing began April 4, 1935, and betting on thoroughbred racing began June 28, 1950. The tax rate of 7% of total wager pools has been in effect since August 28, 1957. Similar rates prevail in New Hampshire and Massachusetts, and an 8% rate is in effect in Rhode Island. Other than in New York State, where 9% and 10% rates prevail, the high rate states impose 7% and 8% rates. Maine realizes less per capita and less per capita per 1% of

# TABLE 11

## COMPARISON OF TAX REVENUES

### Inheritance Tax

Legal Citation:
R. S. (1954) Ch. 155, secs. 1-69

Date Established: 1893

Rates, since Sept. 12, 1959:
Percentage of the value, at time of death, of the share which passes to each beneficiary
Class A (closest kin) – from 2% to 6%, exemptions: $500 to $15,000
Class B (collateral kin) – from 8% to 12%, exemptions: $500
Class C (all others) – from 12% to 18%, exemptions: $500

Distribution:
All to General Fund

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $2,173 | –2.68 |
| 1957-58 | 2,465 | 13.45 |
| 1958-59 | 3,002 | 21.78 |
| 1959-60 | 3,229 | 7.57 |
| 1960-61 est. | 2,850 | –11.74 |
| 1961-62 est. | 2,850 | ---- |
| 1962-63 est. | 2,850 | ---- |

### Comparison with other New England States (1959)

| | Rates | Amount (000's) | Per Capita |
|---|---|---|---|
| Maine | as above | $ 3,002 | $ 3.16 |
| New Hampshire | 2% - 8½% | 1,871 | 3.16 |
| Vermont | 2% - 12% | 994 | 2.67 |
| Massachusetts | 1.23% - 18.45% | 18,619 | 3.76 |
| Rhode Island | 1% - 15% | 3,314 | 3.79 |
| Connecticut | 2% - 14% | 14,149 | 5.86 |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

tax on racing than any other New England state. The ability of a state to raise revenue from pari-mutuel taxes depends primarily on the attractiveness of its race tracks to itinerant bettors. It does not seem that Maine is in a position to raise its pari-mutuel rates above those prevailing in New Hampshire and Massachusetts.

The inheritance tax is a complicated tax to administer partly because it has a complicated rate structure. It is not a tax which can be changed quickly for revenue raising purposes. Maine has been raising about $3 million per year from this tax. The last change in rates (a minor one) was made by the 1959 Legislature. The range of tax rates seems reasonably comparable to those prevailing in other New England states, and, if anything, Maine's rates (Table 11) seem to be somewhat on the high side. In 1959 the inheritance tax yielded $3.16 per capita. New Hampshire's tax yield was an identical $3.16 per capita, but Vermont was lower at $2.67. Other New England states collected larger amounts per capita, and Connecticut, the wealthiest state, collected $5.86 per capita. Aside from rates, the yield depends upon the number of persons of wealth who die each year. Maine does not have many people of large wealth, and is probably doing as well as can be expected under this tax. If additional revenue is to be anticipated, the basic solution is to make the State a more

## TABLE 12

### COMPARISON OF TAX REVENUES

Selective Sales Tax

Insurance

Legal Citation:
R. S. (1954) Ch. 16, secs. 137-148

Date Established: 1874

Rate: Percentage of net direct premiums
Domestic companies, 1%
Foreign companies, 2%
Fire, an additional ½%

Distribution:
All to General Fund except licenses and filing fees to Special Revenue Funds

Additional Yield in 1961-62 if rate were increased 1%: $1,000,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $2,102 | 6.85 |
| 1957-58 | 2,192 | 4.27 |
| 1958-59 | 2,318 | 5.76 |
| 1959-60 | 2,435 | 5.01 |
| 1960-61 est. | 2,413 | – .88 |
| 1961-62 est. | 2,653 | 9.95 |
| 1962-63 est. | 2,763 | 4.15 |

Comparison with other New England States (1959)

| | Rate | Amount (000's) | Per Capita | Per Capita per 1% of tax |
|---|---|---|---|---|
| Maine | 1% - 2½% | $ 2,240[a] | $2.36 | $1.18 |
| New Hampshire | 2% | 1,767 | 2.98 | 1.49 |
| Vermont | 2% - 2¾% | 1,061 | 2.85 | 1.42 |
| Massachusetts | 2% | 11,050 | 2.23 | 1.11 |
| Rhode Island | 2% | 2,384 | 2.72 | 1.36 |
| Connecticut | 1% - 2% | 11,518 | 4.77 | 2.38 |

[a] Census figure disagrees slightly with Maine Controller's figure.

Comparison with all other States (1960)

| Highest: (on some types of insurance) | Lowest: (on some types of insurance) |
|---|---|
| On Domestic companies: 3¼%, Hawaii | On Domestic companies: 2/10%, Ohio |
| On Foreign companies: | No tax: 5 states |
| 4 5/16%, Oklahoma | On Foreign companies: |
| | ½%, New Mexico; 1¾%, Delaware |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

desirable residence for retired people. As recommended in the **Second Report,** one step in this direction would be the removal of intangibles from the property tax base. The possibility that intangibles can be assessed at full value and taxed at the local rate, is a hazard to persons living on income from securities. Changes should not be made in the inheritance tax without careful study. It is not a tax that lends itself to quick rate increases to satisfy revenue requirements.

Taxes on insurance written in Maine (Table 12) yield over $2 million annually. All insurance tax

# TABLE 13

## COMPARISON OF TAX REVENUES

### Selective Sales Tax

### Public Utilities

Legal Citation:
R.S. (1954) Ch. 16, sec. 113

Date Established: 1883-1901

Rate: Percentage of annual gross operating revenues
- Railroads 3¼% to 5¼%
- Parlor car companies 9%
- Express companies 4%
- Telephone companies 1¼% to 7%
- Telegraph companies 6%

Distribution:
All to General Fund

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $3,929 | 12.46 |
| 1957-58 | 3,925 | –.11 |
| 1958-59 | 3,959 | .86 |
| 1959-60 | 4,078 | 3.02 |
| 1960-61 est. | 4,239 | 3.95 |
| 1961-62 est. | 4,424 | 4.36 |
| 1962-63 est. | 4,569 | 3.28 |

### Classification of Public Utility Revenues

(Yields in thousands of dollars)

| | 1958-59 | 1959-60 | 1960-61 | 1961-62 | 1962-63 |
|---|---|---|---|---|---|
| Total Public Utilities | 3,958.5 | 4,078.1 | 4,238.6 | 4,423.6 | 4,568.6 |
| Railroads[a] | 1,596.3 | 1,480.9 | 1,500.1 | 1,540.1 | 1,540.1 |
| Parlor Cars | .8 | .4 | ––– | ––– | ––– |
| Express | 5.3 | 4.7 | 4.5 | 4.5 | 4.5 |
| Telephone | 2,320.7 | 2,588.1 | 2,700.0 | 2,845.0 | 2,990.0 |
| Telegraph | 35.4 | 34.0 | 34.0 | 34.0 | 34.0 |

### Comparison with other New England States (1959)

| | Rate | Amount (000's) |
|---|---|---|
| Maine | varies | $4,022[b] |
| New Hampshire | no tax on gross receipts | ––– |
| Vermont | varies | 1,101 |
| Massachusetts | no tax on gross receipts | ––– |
| Rhode Island | varies | 4,716 |
| Connecticut | varies | 8,004 |

[a] Includes tax on registration of steamboats.
[b] Gross collections, Maine Controller shows net collections.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).

Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).

U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

money, except the small sums realized from licenses and filing fees goes into the General Fund. The basic tax rate is 2% of net direct premiums, but Maine companies pay only 1%, and the rate on fire insurance is 2½% (1½% for Maine companies). The 2% rate is used by most of the states, although a few states have extremely high or extremely low rates (Table 12). Since most states tax foreign insurance companies at the same rate as the home state of the company applies to its domestic companies when they do business in that state, there is a tendency toward uniformity. If Maine were to raise its tax rate to 3%, insurance companies of Maine would probably have to pay insurance premiums taxes at that rate in every other state in which they do business. This would more than reduce the advantage Maine seeks to give its own companies by taxing them at 1% on all insurance that they write in Maine. Compared to the other New England states, Maine's revenues from insurance taxes are reasonable, although the others have slightly greater yields per capita – except in Massachusetts. Connecticut is an " insurance " state, and its yields are twice those of other New England states. Insurance taxes offer no promise of additional revenue for the General Fund at this time.

Taxes on the gross receipts of public utility corporations yield about $4 million annually to the General Fund (Table 13). Of this sum, about $1.5 million is paid by the railroads and about $2.5 million is collected from the telephone companies. Taxes on telegraph, express, parlor car and steamboat companies yield insignificant sums which are steadily declining. Since parlor cars no longer run on the Maine railroads, revenue from this particular source has ceased. Each type of public utility is subject to its own special tax structure. Increasing revenue from this tax is expected only from the telephone companies. Railroad yields, at present rates, are expected to remain constant. However, if changes in railroad taxation, as recommended in Part II of this report, are enacted by the Legislature, estimates for Fiscal Year 1963 should be decreased by about $1 million. It is difficult to compare public utility taxes among the states, since no two states tax their public utilities alike. In New Hampshire and Massachusetts there are no gross receipts taxes on public utilities. Electric power and light companies which are subject to gross receipts taxes in many states, are taxed under the general property tax in Maine. Vermont, Rhode Island, and Connecticut tax some utilities on gross receipts. Maine cannot expect increased tax revenues from its present public utilities. It should be prepared for declining revenues from this source.

* * *

Maine was one of the early states to impose a gasoline tax. In 1923 a tax of 1c per gallon was enacted. By 1927 the rate was 4c where it remained for 20 years. It was raised to 6c in 1947 and to 7c in 1955 (Table 14). Maine is one of 16 states imposing a 7c rate, the highest in the country. In 1959 only one other New England state, New Hampshire imposed a 7c tax. Rhode Island raised its rate to 7c effective June 1, 1960. Vermont's rate is 6½c, Connecticut's, 6c, and Massachusetts, 5½c. In 1959, Maine collected more per capita per 1c of tax than any other New England state except Vermont. This is partially a reflection of Maine's large area and partially of the tourist trade.

All revenues from the tax on gasoline sold for highway use are constitutionally dedicated to the Highway Fund (Art. IX, Sec. 19). When gasoline is used for other purposes, all or most of the tax is refunded. A small fraction of the tax on motorboat fuel goes to the Sea and Shore Fisheries Fund and the tax on fuel used in aircraft is dedicated to the Aeronautical Fund. Gasoline that is not subject to the 7c gallonage tax, pays the 3 per cent retail sales tax. It is estimated that a 1c increase in the gasoline tax would yield an additional $3,500,000 annually for the Highway Fund. At that rate, however, Maine would have a state gasoline tax higher than that of any state in the Union.

Motor vehicles were first licensed in 1905. At that time only one registration was necessary for the duration of ownership of the vehicle. In 1912 the present annual registration fee system was adopted. The fee used to vary from $10 to $16, in $2 intervals, for passenger cars, based on horsepower, but was changed, effective January 1, 1960 to a flat rate of $15 (Table 15). Commercial vehicles pay rates from $15 to $455 depending on the weight of the vehicle.

It is difficult to say how Maine's tax burden on motor vehicles compares with other states. From license taxes alone, Maine collected $8.85 per capita in 1959. This is less than New Hampshire and about half as much as Vermont, but more than the other New England states. New Hampshire and Vermont (prior to March 1, 1960) levy no sales tax on automobiles, while Rhode Island and Connecticut tax the full sales value of a car without allowance for trade-

# TABLE 14

## COMPARISON OF TAX REVENUES

### Selective Sales Tax

### Gasoline and Use Fuel

Legal Citation:
R. S. (1954) Ch. 16, secs. 158-168

Date Established: Gasoline 1923
Use Fuel 1941

Rate:
Gasoline 7c per gallon since June 1, 1955
Use fuel 7c per gallon since June 1, 1955
(Rate was 4c per gallon Oct. 29, 1927 – May 31, 1947 and 6c per gallon June 1, 1947–May 31, 1955)

Distribution:
All to Highway Fund, except a small fraction of tax on motorboat fuel to Sea & Shore Fisheries Fund and tax on fuel used in aircraft (less refunds) to Aeronautical Fund (about $90,000)

Additional Yield in 1961-62 if rate were increased 1c per gallon: $3,500,000

| Fiscal Year | Yield (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $20,907 | 5.52 |
| 1957-58 | 21,274 | 1.76 |
| 1958-59 | 22,241 | 4.55 |
| 1959-60 | 23,116 | 3.93 |
| 1960-61 est. | 23,890 | 3.35 |
| 1961-62 est. | 24,290 | 1.67 |
| 1962-63 est. | 25,090 | 3.29 |

### Comparison with other New England States (1959)

| | Rate cents per gallon | Amount (000's) | Per Capita | Per Capita per 1c of tax |
|---|---|---|---|---|
| Maine | 7 | $22,241 | $23.48 | $3.35 |
| New Hampshire | 7 | 11,498 | 19.42 | 2.77 |
| Vermont | 6½ | 8,243 | 22.16 | 3.41 |
| Massachusetts | 5½ | 73,012 | 14.75 | 2.68 |
| Rhode Island | 6 | 14,306 | 16.35 | 2.72 |
| Connecticut | 6 | 44,838 | 18.57 | 3.10 |

### Comparison with all other States (1960)

| Highest: 7c per gallon | Lowest: 3c per gallon |
|---|---|
| 16 states | Missouri |

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).

Department of Finance and Administration, *State of Maine Financial Report,* 1957-1960 and unpublished reports (Augusta, Me.: 1960).

U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

# TABLE 15

## COMPARISON OF TAX REVENUES

### License Tax

### Motor Vehicles

Legal Citation:
R. S. (1954) Ch. 22

Date Established: 1905, perennial; 1912, annual

Rates:
Passenger cars, $15 flat fee since Jan. 1, 1960
Trucks, 6,000 to 60,000 lbs., $15 to $455

Distribution:
All to Highway Fund

| Fiscal Year | Yield [a] (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $7,883 | 4.24 |
| 1957-58 | 8,007 | 1.57 |
| 1958-59 | 8,402 | 4.93 |
| 1959-60 | 8,774 | 4.43 |
| 1960-61 est. | 9,000 | 2.58 |
| 1961-62 est. | 9,300 | 3.33 |
| 1962-63 est. | 9,650 | 3.76 |

### Comparison with other New England States (1959)

| | Rate | Amount (000's) | Per Capita |
|---|---|---|---|
| Maine | | $ 8,402 | 8.85 |
| Passenger cars | $10 to $16 from 17 horsepower to over 31 horsepower | | |
| Trucks | 6,000 to 60,000 lbs., $15 to $455 | | |
| New Hampshire | | 5,981 | 10.10 |
| Passenger cars | 35c to 60c per 100 lbs., min. $12 | | |
| Trucks | 35c to 60c per 100 lbs., min. $15 | | |
| Vermont | | 6,629 | 17.82 |
| Passenger cars | Flat fee $30 | | |
| Trucks | $8.60 to $12.90 per 1,000 lbs., min. $43 | | |
| Massachusetts | | 17,912 | 3.62 |
| Passenger cars | Flat fee $6 | | |
| Trucks: non-gasoline | $10 per 1,000 lbs., min. $40 | | |
| Trucks: gasoline | $3 per 1,000 lbs., min. $12 | | |
| Rhode Island | | 6,230 | 7.12 |
| Passenger cars | $10 to $33 from 2,500 lbs. to over 6,000 lbs. | | |
| Trucks | $12.50 to $240 plus $10 per 2,000 lbs. over 48,000 lbs. | | |
| Connecticut | | 12,661 | 5.24 |
| Passenger cars | Flat fee $8 | | |
| Trucks | 30c per 100 lbs. up to 20,000 lbs., to 50c per 100 lbs., if 30,000 lbs. or over | | |

[a] U.S. Bureau of the Census figures.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

# TABLE 16

## COMPARISON OF TAX REVENUE

### License Tax
### Motor Vehicle Operators

Legal Citation:
R. S. (1954) Ch. 22, sec. 60

Date Established: 1905, perennial; 1912, annual

Rate:
$2 annually since Jan. 1, 1912

Distribution:
All to Highway Fund

| Fiscal Year | Yield[a] (000's) | Annual Change in % |
|---|---|---|
| 1956-57 | $ 865 | 5.62 |
| 1957-58 | 1,369[b] | 58.30 |
| 1958-59 | 552[c] | – 59.70 |
| 1959-60 | 941 | 70.54 |
| 1960-61 est. | 943 | .19 |
| 1961-62 est. | 980 | 3.91 |
| 1962-63 est. | 1,022 | 4.32 |

### Comparison with other New England States (1959)

| | Annual Rate | Amount (000's) | Per Capita | Per Capita per $1 of tax |
|---|---|---|---|---|
| Maine | $2.00 | $ 552[c] | $ .58[c] | $ .29[c] |
| New Hampshire | 2.00 | 599 | 1.01 | .50 |
| Vermont | 2.50 | 458 | 1.23 | .49 |
| Massachusetts | 2.50 | 8,511 | 1.72 | .69 |
| Rhode Island | 2.00 | 902 | 1.03 | .51 |
| Connecticut | 3.00 | 3,845 | 1.59 | .53 |

### Comparison with all other States (1960)

| Highest: $8 for 2 years ($4 annually) | Lowest: $1 for 3 years |
|---|---|
| Rhode Island | Missouri, Virginia<br>Utah, original license $2, with $1 for renewal every 5 years |

[a] Maine Motor Vehicle Division and U. S. Bureau of the Census figures.
[b] Change-over to birthdate expiration.
[c] Effect of previous year's change-over.

Sources: Commerce Clearing House, Inc., *State Tax Guide, Second Edition,* and *Maine Tax Reporter,* looseleaf reporting services (Chicago, Ill.: 1960).
U.S. Bureau of the Census, *Detail of State Tax Collections in* 1960 (Nov. 8, 1960).

in. Property taxes are paid on motor vehicles in Maine, or in some cases an excise tax. All other New England states, except Vermont also collect property or excise taxes on motor vehicles, which tends to explain why Vermont's flat rate registration of $30 is the highest in the area. In Maine, and some other New England states, a poll tax must be paid before registration plates are issued. While such a tax is not on the motor vehicle, many automobile owners consider it as a maintenance cost. A survey by the U. S. Bureau of Public Roads in 1956 of license, gasoline, property, and excise taxes for typical vehicles doing typical annual mileages over average roads in the 48 states showed Maine in the top quarter and higher than the other New England states. While it might appear that Maine's motor vehicle license taxes compare favorably with those of other New England states, the other motor vehicle taxes – gasoline, property, and excises – have increased the total tax burden. There does not appear to be much leeway in this tax. All revenues from this source go to the Highway Fund and the General Fund would gain nothing by increased motor vehicle license taxes.

Maine has required a license for operating motor vehicles since 1905. The annual charge of \$2.00 is a usual rate. In 1959, three New England states charged \$2.00, two charged \$2.50, and Connecticut charged \$3.00. Collections in Maine in the fiscal year 1959 were heavily influenced by the change-over to birth-date expiration the previous year. Because of this, Maine appears (Table 16) to have the lowest driver license taxes per capita. In 1960, collections per capita per \$1 of tax were \$.49, and Maine compared favorably with the other New England states. Rhode Island raised its rates to \$4 per year in 1960, to become the highest operator license fee state. Since only New Hampshire now has a rate as low as Maine's, Maine could possibly increase its rate. In Maine, as in other New England states, the payment of the poll tax is a condition precedent to the annual renewal of a driver's license. All revenues from drivers license fees are deposited in the Highway Fund and any increase would benefit that fund exclusively.

# ADDITIONAL REVENUES IN MAINE OUTSIDE THE PRESENT TAX STRUCTURE

## Income Taxes

As pointed out in the **Second Report,** every tax study commission from 1890 to 1950 recommended against the imposition of an income tax by the State of Maine. The Phillips report in 1950, however, suggested either a personal income tax or a sales tax with food exempt, but questioned the wisdom of a corporate income tax.

State and local income taxes are used throughout the United States. Since, however, the Federal government has made income taxes the base of its tax structure, states and localities have been prompted to seek their fiscal support elsewhere. At the present time 31 states levy personal net income taxes on all individual income and 36 levy general corporation net income taxes. One state, Indiana, taxes the gross income of individuals and corporations. South Dakota taxes the net income of banks only, and two states, New Hampshire and Tennessee tax only the income from intangibles received by individuals. No state uses a personal income tax on earned income without at the same time imposing a corporate income tax, although five states impose corporate income taxes without taxing the earned income of their residents. Over 1000 municipalities in five states impose income taxes on individuals and businesses. The greatest number of these are in two states, Pennsylvania and Ohio, which do not impose state individual income taxes.

Of the five states using corporate income taxes, but not personal income taxes, three, Connecticut, Rhode Island, and Tennessee, levy 3 per cent general retail sales taxes; one, Pennsylvania, levies a 4 per cent sales tax; and one, New Jersey, has no sales tax. Of the 31 states imposing both a corporate income tax and a personal income tax, 20 also impose general retail sales taxes, and one, Alaska, a gross receipts tax. Of the 20 states using general retail sales taxes, corporate income taxes and individual income taxes, eight use a 2 per cent sales tax rate, one uses a 2½ per cent rate, ten use a 3 per cent rate, and one uses a 3½ per cent rate. Were Maine to adopt a corporate income tax, it would not have an unusual tax structure.

Corporation income tax rates vary from a low of 1¾ per cent in New Jersey to a high of 9½ per cent in Idaho, although most states apply rates of 4 per cent, 5 per cent, and 6 per cent. The rate tells only part of the story of the tax burden. Other factors in determining tax liability are the deductibility of Federal corporation income taxes and the allocation formula. Since the effective Federal tax rate on most corporations is 52 per cent, the states that permit corporations to deduct Federal taxes paid as an expense in determining net income, in effect cut their own tax rate in two. Corporations keep their accounts on a national basis, and in order to determine what share of the net profits of a corporation is properly allocable to the taxing state, a formula is used. The most common is known as the "Massachusetts formula". Under this formula, the taxpaying corporation takes the average of three percentages and applies it to net income to determine the base on which the state tax will be paid. The first percentage is the ratio of gross receipts within the state to gross receipts everywhere. The second is the ratio of payrolls within the state to payrolls everywhere. The third is the ratio of the value of property within the state to the value of property everywhere.

A corporate net income tax allocated on the Massachusetts formula, and disallowing the deduction of Federal income taxes, would yield approximately $2 million per 1 per cent of rate, based on 1959 corporation incomes. The corporation tax rates now in effect in New England are: 3.75 per cent in Connecticut, 5 per cent in Vermont, and 6 per cent in Rhode Island. The rate in Massachusetts is 6.765 per cent but its tax ties in with measures of corporate excess as well as net income. A 5 per cent corporation net income tax in Maine would yield about $10 million per year, or $20 million for the biennium.

A personal income tax has never been seriously considered. Were Maine to adopt a personal income tax and a corporation income tax it would have a tax structure similar to that of twenty other states which have the three broad-based state taxes – sales, personal income and corporate income. No state has a tax structure wherein the general retail sales tax and the personal income tax alone are the only broad-based taxes. A personal income tax of the New Hampshire or Tennessee type that affects only the income from intangibles, would fit the Maine tax structure, without the imposition of corporation and employment income taxes. As mentioned in the **Second Report,** Maine could impose such a tax as a replacement for the property tax on intangibles, although it was recommended that intangibles be exempt from property taxation, without concern for a replacement. The adoption of a personal income tax without a corporation income tax would give Maine an unusual tax structure.

The personal income tax is based on ability to pay. It is the most progressive of all taxes. It takes substantial sums from those most able to bear the burden and nothing from those at the bottom of the income scale. On the one hand, Maine does not have many households in the upper income brackets, and substantial revenues can only be obtained by levying comparatively high rates at the lower levels of income. On the other hand, since Maine's retail sales tax exempts food for home consumption and fuel for domestic use some of its regressivity has been eliminated. Of all the New England states, only Vermont imposes a graduated personal income tax applicable to all income. The Massachusetts tax is levied at three flat rates, one applicable to business and employment income, one to income from intangibles, and one to income from annuities. As has been said, the New Hampshire tax applies only to income from intangibles.

A graduated personal income tax of the Vermont, New York, or Delaware variety would yield between $25 and $30 million per year in revenue. These three states rely on personal and corporate income taxes, and do not impose general retail sales taxes.

**Vermont** allows a $500 personal exemption for a single taxpayer, $1,000 for a married one, and $500 for each dependent. The rates are 2 per cent on the first $1,000 of net taxable income, 4 per cent on the next $2,000, 6 per cent on the next $2,000, and 7.5 per cent on all above $5,000. Vermont disallows Federal income tax deductions, does not permit joint returns, but does not tax capital gains.

**New York** allows a $600 exemption for each taxpayer and each dependent, and $1,200 for married ones. The rates on net taxable income are as follows:

| | | | | | |
|---|---|---|---|---|---|
| 1st | $ 1,000 | 2% | Next | $ 2,000 | 7% |
| Next | 2,000 | 3% | Next | 2,000 | 8% |
| Next | 2,000 | 4% | Next | 2,000 | 9% |
| Next | 2,000 | 5% | All over | 15,000 | 10% |
| Next | 2,000 | 6% | | | |

New York disallows Federal income tax deductions, taxes capital gains at ½ the regular rate, but does not permit joint returns. After the total tax liability is computed a credit of 10 per cent of the amount of the tax is allowed on 1960 income.

**Delaware** allows the same personal exemptions as New York, and the usual deductions for charity, medical costs, and non-income taxes. The Delaware rates on net taxable income are as follows:

| | | | | | |
|---|---|---|---|---|---|
| 1st | $ 1,000 | 1.5% | Next | $ 1,000 | 5% |
| Next | 1,000 | 2% | Next | 1,000 | 6% |
| Next | 1,000 | 3% | Next | 2,000 | 7% |
| Next | 1,000 | 4% | All over | 8,000 | 8% |

Delaware allows Federal income tax deductions up to $300, does not permit joint returns, and taxes capital gains as ordinary income.

To indicate what a Maine resident is likely to pay under an income tax, the taxes payable by a married man with two children, all of whose income came from the husband's employment or business, in each of the three states at various levels of adjusted gross income is shown below. It was assumed that allowable deductions in all cases equaled 10 per cent of adjusted gross income.

| Adjusted | Taxes Payable in | | |
|---|---|---|---|
| Gross Income | Vermont | New York | Delaware |
| $ 3,000 | $ 14.00 | $ 5.40 | $ 3.61 |
| $ 5,000 | 80.00 | 47.70 | 31.00 |
| $10,000 | 370.00 | 216.00 | 236.00 |
| $20,000 | 1,045.00 | 828.00 | 939.00 |
| $30,000 | 1,720.00 | 1,638.00 | 1,659.00 |
| $50,000 | 3,070.00 | 3,258.00 | 3,099.00 |

It may be noted that in the lower income brackets, the Vermont rates are substantially higher. There are many other differences in the income taxes of the three states besides the exemptions and the rates, although these are the major ones. If Maine were to adopt the Vermont income tax, it would yield revenues of some $60 million to the General Fund for the biennium 1962-1963. The New York or Delaware income taxes would yield some $52 million for the biennium. Total General Fund expenditures for the biennium will probably be around $160 million and it is obvious that Maine does not need such substantial additional revenue at the present time.

**Massachusetts** and **Maryland** impose flat rate taxes on income. The Massachusetts rates are 7.38 per cent on interest, dividends, and capital gains on intangibles, 3.075 per cent on income from employment and business, and 1.845 per cent on income from annuities. The Maryland rates are 3 per cent on the first $500 of net investment income, and 5 per cent on the balance, and 3 per cent on income from employment and business. Massachusetts allows exemptions of $2,000 to a single taxpayer, $2,500 to a married taxpayer, and $400 additional for each dependent. Maryland allows exemptions of $800 to a single taxpayer, $1,600 to a married one, and $800 additional for each dependent. Maryland does not allow Federal income taxes as a deduction, Massachusetts allows them as a deduction against employment or business income. Either the Maryland or Massachusetts tax will raise about $20 million per year in Maine, or $40 million for the 1962-1963 Biennium.

Tax liability under these two taxes (Massachusetts and Maryland) for a married man with two children and making the same assumptions is shown below. At the $3,000 level of adjusted gross income there would be no tax liability in either state.

| Adjusted | Taxes Payable in | | |
|---|---|---|---|
| Gross Income | Massachusetts | Maryland | California |
| $ 5,000 | $ 24.14 | $ 39.00 | $ 3.00 |
| $10,000 | 133.98 | 174.00 | 48.00 |
| $20,000 | 338.25 | 444.00 | 264.00 |
| $30,000 | 518.69 | 714.00 | 640.00 |
| $50,000 | 803.34 | 1,254.00 | 1,806.00 |

The taxes on earned income (employment and business) are higher in Maryland, but the taxes on income from intangibles are higher in Massachusetts. In addition to the personal income tax Massachusetts imposes a corporation income tax as the only other broad-based tax. In Maryland, however, a corporation income tax and a 3 per cent general retail sales tax are both used.

**California** imposes a personal income tax, a corporation income tax, and a 3 per cent general retail sales tax. In addition, almost all local governments impose a 1 per cent retail sales tax. Since California is heavily committed to sales taxation, its personal income tax is of modest proportions. An income tax at the California rates and other statutory provisions would yield about $10 million per year, or $20 million for the 1962-1963 Biennium.

In that state there is an exemption of $1,500 to a single taxpayer, $3,000 to a married taxpayer, and $600 for each dependent. The rates begin at 1 per cent for the first $2,500 of net taxable income, and rise at 1 per cent intervals for each additional $2,500 of income until the rate of 7 per cent which applies to all net income over $15,000. There would be no income tax payable by a married man with two children if his annual adjusted gross income was $3,000. At the higher levels, his 1960 California income tax liability is shown in the above half-table. California does not allow the deduction of Federal income taxes, but permits the splitting of income (joint returns) between husband and wife. Capital gains are taxable at preferential rates. The California income tax is light in the lower brackets, but higher than the flat rate in Massachusetts and Maryland taxes in the upper brackets.

**New Hampshire** and **Tennessee** tax only the income from intangibles. New Hampshire allows a $600 exemption to each taxpayer, Tennessee allows no personal exemptions. The New Hampshire rate is 4.25 per cent. The income from securities issued by the State of New Hampshire, but not by its local subdivisions, is exempt from the tax. In Tennessee, the regular rate is 6 per cent, but a special rate of 4 per cent applies to income from securities of corporations that have more than three-fourths of their property taxable in Tennessee. Obligations of the State of Tennessee and all its local subdivisions are exempt from its income tax. It is estimated that a tax, such as exists in New Hampshire or Tennessee would yield the State of Maine about $2 million per year. New Hampshire has no broad-based taxes, while Tennessee has a 3 per cent general retail sales tax and a 3.75 per cent corporation income tax.

A New Hampshire type income tax would fit with Maine's tax structure. It would be an improvement as compared to the erratic practices now in use. It would substitute definite tax liability for the "tax lightning" to which bondholders and stockholders may now be subject. It would be no burden to those in the lower income brackets, who usually own no securities. A New Hampshire type exemption would eliminate from liability those people with small retirement incomes from commercial securities. If the Legislature cannot exempt intangibles from the property tax without some type of replacement, an income tax might be considered. As the **Second Report** indicated, however, it seems best at this time to exempt intangibles entirely, rather than to select them for special treatment on an income base.

A corporate income tax will yield $2 million per year per 1 per cent of rate. A personal income tax on intangibles only will yield $2 million per year. A graduated individual income tax will yield from $10 million to $30 million per year depending on the rates, exemptions, and deductions used. Maine has never shown an interest in income taxes. As has been said, moreover, the fiscal requirements of the State do not require a new broad-based tax at this time.

# PART II

# THE TAXATION OF RAILROADS IN MAINE

## The Background

The first law taxing railroads in Maine was passed in 1845. This law (P.L. 1845, ch. 165) provided that the main stems (the track and road bed) should not be taxed as real estate and that the stock was taxable to the owners as personal property. Other real estate (except the track and road bed) was taxable in the town in which it was located. In addition, however, many of the charters granted the railroads after 1845, contained special provisions for taxation, usually tieing the tax to earnings on invested capital, on the theory that the state should share in what was likely to become a most profitable venture.

With the movement for the relief of the property tax in 1870, the railroads were selected as a source of new revenue. A law was passed (P.L. 1874, ch. 258) authorizing the Governor and Council to determine the cash value of the railroads, to deduct therefrom the value of their property assessed for local taxation, and to apply a 1½ per cent tax to the remainder. This was the value of the franchise for tax purposes. The tax was in lieu of all taxes on railroad shares, and the proceeds were to be distributed to the towns in proportion to the stock locally owned. The railroads contested this tax as a violation of their charter rights, but both the state courts and the U. S. Supreme Court sustained the position of the State, although a modification was later made in the case of two roads whose charter provisions were upheld.

In 1880 a further change was made. The law of 1874 had removed shares from the local tax base, and absorbed them as part of the state base. Bonds, however, had become an important part of the capital structure. These were hard to locate, and for the most part, escaped taxation. In 1880 (P.L., ch. 249) the legislature attempted to remedy this condition by changing the tax base; namely, the "franchise, rolling stock and fixtures" – fixtures meaning the "roadway" – were to be appraised at cash value, and a levy of 1 per cent applied "so as to make said tax as near as may be to the taxes of all kinds upon other property, through which said roads may extend." Railroad shares were exempt. Other property ("land, buildings and fixtures outside of the . . . roadways") was taxable locally where situated. While there was some question as to whether this was a property tax, and must, under the Constitution, be assessed and apportioned equally; the court ruled, (1883), that it was a franchise tax, and did not, therefore, have to be apportioned.

Prior to the litigation, however, the legislature changed the law. It specifically declared it to be "an annual excise tax, for the privilege of exercising its franchises in this state." This law (P.L. 1881, ch. 91), provided that the tax should be measured in "gross transportation receipts." The tax was to be applied to the average gross receipts per mile of track. When not exceeding $2,250 a mile, the rate was ¼ of 1 per cent; between $2,250 and $3,000, the rate was ½ of 1 per cent; from there, the rate increased ¼ of one per cent for every increase in gross receipts of $750 a mile, but in no case was it to be more than 3¼ per cent. The tax was in lieu of all other taxes on road beds, rolling stock, franchise and shares. The towns were to receive 1 per cent of the par value of the stock owned by its inhabitants, but in no case should the amount distributed exceed the total tax collected. Buildings, lands and fixtures outside of the right-of-way, were subject to taxation by the various cities and towns.

Until the close of World War I, gross receipts remained the base for railroad taxation. There were many rate changes, and adjustments in the mileage provisions but the principle remained undisturbed. The war, however, left the Maine railroads in poor financial condition and relief was sought through a reduction in taxes. It was a time when tax thinking was concentrated on earnings taxes. The federal government had adopted both individual and corporate income taxes. Several states, among them California, Minnesota and Connecticut, had applied gross receipts taxes to their utilities, and New York and Wisconsin were successfully taxing income. There was considerable discussion as to the merits of gross earnings as a base or net earnings as a base. Net earnings were considered "the fairest and most accurate measure of the ability to pay taxes." Gross earnings, however, were thought to have the advantage "of greater certainty and simplicity." Gross was always a clear book item, about which there could be little controversy. Net earnings involved complicated deductions and conceptual judgments around which much argument and evasion could develop. The real difference, however, concerned the theory of tax liability: should a corporation pay taxes only when it made a profit? – or is a tax to be considered as a necessary cost of business, and payable whether there are profits or not?

A committee of the National Tax Association reported at length upon this matter in 1922 (**Proceedings**, pp. 171-176), and proposed a combination of gross and net earning taxes. It was suggested that a tax be imposed on net earnings at an established rate, provided, however, that the amount of the tax should never be less than a prescribed per cent of gross earnings. This was thought to answer the dilemma of gross v. net as a base. Being based, in part, on earnings, varying ability to pay was recognized. Being based, in part, on gross, a certain minimum revenue was assured. It was, in a way, the same as providing two taxes, one on gross and one on net, and paying whichever was the higher.

After several years of controversy the gross-net method was adopted in Maine – P. L. 1927, ch. 27. The law provided that the net railway operating income (total railroad operating revenues less operating expenses, tax accruals, and uncollectible railway revenues) for the preceding year ending December 31, should be compared to **gross** transportation receipts. This comparison resulted in a ratio of net operating income to gross receipts, and the tax rate was graduated according to this ratio. The rate structure was as follows:

> When the ratio of net to gross did not exceed 10 per cent, the tax rate was 3½ per cent of the gross; between 10 per cent and 15 per cent, the rate was 4 per cent; 15 to 20 per cent, 4½ per cent; 20 to 25 per cent, 5 per cent; and when net operating income exceeded 25 per cent of gross, the rate was 5½ per cent. If a railroad did not operate over 50 miles of road, the maximum tax was 2 per cent of gross. Narrow gauge lines were given special rates – ½ of one per cent of gross when the ratio of net to gross was in excess of 5 per cent but less than 10 per cent; if in excess of 10 per cent, the tax was 1 per cent; but if below 5 per cent no tax was levied.

The 1927 legislation was vetoed by the governor. It was passed over his veto, and following a referendum vote (120,000 for and 52,000 against) became law October 6, 1928 (P.L. 1929, p. 919). Up until this time (1927) Maine had recognized certain principles in state taxation of its railroads; 1) railroads were not "ordinary business" and should be regulated; 2) not only property but also gross receipts, should be part of the tax base; 3) the state should share in the increasing prosperity of the roads; and 4) under franchise taxation, tangible real estate, tangible personalty, and intangible personalty (stocks) should be exempt. The 1929 legislation added a new concept: net operating income became a component part of the tax. This recognized **earnings** as a measure of tax liability – the only instance in Maine taxation where an income measure has been accepted.

Professor Jewett, in his **A Financial History of Maine** (1937) prepared an analysis of the 1929 law as it operated over the first five years. For comparative purposes, he selected the Bangor and Aroostook (an increasingly prosperous operation over the period) and the Maine Central (a steadily losing operation). These two roads accounted for 72 per cent of the total railroad mileage in the State. Tables 17A and 17B show the effects of the "gross-net" tax on the Bangor and Aroostook and the Maine Central.

As has been pointed out, before 1929, the law provided a gross receipts tax for the railroads. The rate was determined by the amount of gross receipts per mile of track operated, and increased as the amount per mile of track increased. In the case of the Bangor and Aroostook and the Maine Central (Tables 17A, 17B) gross receipts per mile of track operated was sufficient to require the highest rate – 5.5 per cent. When the "gross-net" law went into effect several things happened:

> The tax on the Maine Central decreased (1928 to 1929) $287,000 or 31 per cent, and the rate decreased from 5.5 (the maximum) to 4 per cent.
>
> The tax on the Bangor and Aroostook remained constant (1928 to 1929) and the rate remained 5.5 per cent.

Inasmuch as the Bangor and Aroostook had a better earnings record than the Maine Central, the law seemed to adjust to income fluctuations. From 1929 to 1934, however, the Maine Central varied only ½ of one per cent in its tax rate, while gross receipts declined 46 per cent. Its tax fell from $659,000 to $402,000 – 39 per cent; and its net railway operating income fell from $2.7 million to $1.9 million – 30 per cent. But for two years during this period, the railroad was operating at a loss. In theory, net operating revenue should decrease more rapidly than gross receipts. Fixed charges must be paid regardless of

# TABLE 17A

## BANGOR AND AROOSTOOK RAILROAD – TAXES AND INCOME
## 1923 – 1934

(In thousands of dollars)

| Year | Gross Receipts | % Rate of Tax | Amount of Tax | Amount of Tax under Old Law that would have been Levied | Net Railway Operating Income | Net Income |
|---|---|---|---|---|---|---|
| 1923 | $ 7,366 | 5.5 | $ 405 | | | $ 676 |
| 1924 | 6,693 | 5.5 | 368 | | | 594 |
| 1925 | 6,865 | 5.5 | 377 | | | 722 |
| 1926 | 6,789 | 5.5 | 373 | | | 723 |
| 1927 | 6,874 | 5.5 | 378 | | | 914 |
| 1928 | 7,340 | 5.5 | 403 | | | 1,139 |
| 1929 | 7,132 | 5.5 | 392 | $ 392 | $ 1,899 | 983 |
| 1930 | 8,066 | 5.5 | 443 | 443 | 2,277 | 1,398 |
| 1931 | 8,285 | 5.5 | 455 | 455 | 2,335 | 1,557 |
| 1932 | 6,823 | 5.0 | 341 | 375 | 1,388 | 623 |
| 1933 | 5,851 | 5.5 | 321 | 321 | 1,465 | 701 |
| 1934 | 5,753 | 5.5 | 316 | 316 | 1,741 | 993 |

Source: Jewett, *A Financial History of Maine,* p. 173, and Annual Reports, Form A, Interstate Commerce Commission.

NOTE: Because the Maine excise tax is computed on the basis of the preceding year's performance, Gross Receipts, Net Railway Operating Income, and Net Income are for one year prior to the year shown.

# TABLE 17B

## MAINE CENTRAL RAILROAD – TAXES AND INCOME
## 1923 – 1934

(In thousands of dollars)

| Year | State of Maine Proportion of Gross Receipts | % Rate of Tax | Amount of Tax | Amount of Tax under Old Law that would have been Levied | Net Railway Operating Income | Net Income |
|---|---|---|---|---|---|---|
| 1923 | $ 16,880 | 5.5 | $ 928 | | | $ 551 |
| 1924 | 17,510 | 5.5 | 962 | | | 10 |
| 1925 | 16,644 | 5.5 | 915 | | | 389 |
| 1926 | 16,613 | 5.5 | 914 | | | 1,177 |
| 1927 | 17,397 | 5.5 | 957 | | | 1,270 |
| 1928 | 17,206 | 5.5 | 946 | | | 551 |
| 1929 | 16,466 | 4.0 | 659 | $ 906 | $ 2,704 | 788 |
| 1930 | 17,364 | 4.5 | 781 | 955 | 3,680 | 1,746 |
| 1931 | 16,275 | 4.5 | 732 | 895 | 3,001 | 1,112 |
| 1932 | 12,767 | 4.0 | 511 | 702 | 1,837 | (63)[1] |
| 1933 | 9,650 | 4.0 | 386 | 531 | 1,551 | (416)[1] |
| 1934 | 8,968 | 4.5 | 402 | 493 | 1,933 | 19 |

[1]Deficit

Source: Jewett, *A Financial History of Maine,* p. 174, and Annual Reports, Form A, Interstate Commerce Commission.

NOTE: Because the Maine excise tax is computed on the basis of the preceding year's performance, Gross Receipts, Net Railway Operating Income, and Net Income are for one year prior to the year shown.

receipts, and when in the face of falling gross receipts, the net railway operating income is maintained, it is likely to be at the cost of maintenance and extreme economies. Nevertheless, the tax did, roughly speaking, fulfill its expectations – it did (for the first 5 years) adjust to income and it did guarantee a minimum tax revenue regardless of earnings.

The current situation is like this. The 1927 law is still the prevailing railroad tax act. There were practically no changes, until the 1951 legislature reduced the tax percentage rates ranging from 3½ to 5½ per cent by ¼ of one per cent. This left the railroads with a minimum tax of 3¼ per cent and a maximum tax of 5¼ per cent. The current rate structure is as follows:

### RAILROADS

| When the Net Railway Operating Income is | Annual Tax As % of Receipts |
|---|---|
| 10% or less of the Gross Transportation Receipts | 3¼ |
| In Excess of 10% but not exceeding 15% of the Gross Transportation Receipts | 3¾ |
| In Excess of 15% but not exceeding 20% of the Gross Transportation Receipts | 4¼ |
| In Excess of 20% but not exceeding 25% of the Gross Transportation Receipts | 4¾ |
| In Excess of 25% of the Gross Transportation Receipts | 5¼ |

### NARROW GAUGE RAILROADS WHOLLY IN STATE

(No longer operating in Maine)

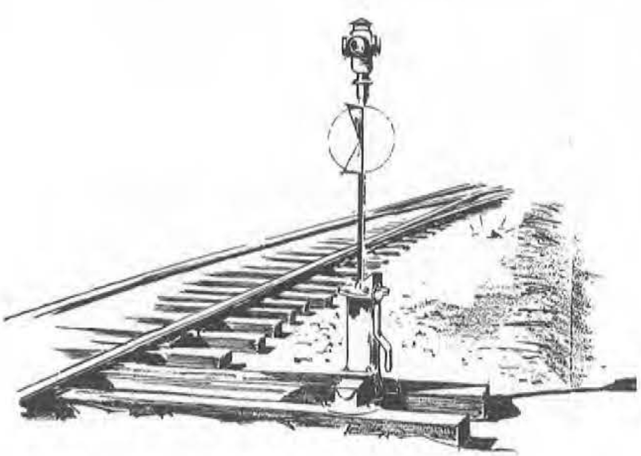
| When the Net Railway Operating Income is | Annual Tax As % of Receipts |
|---|---|
| 5% or less of the Gross Transportation Receipts | No Tax |
| In Excess of 5% but not exceeding 10% of the Gross Transportation Receipts | ¼ |
| In Excess of 10% of the Gross Transportation Receipts | ¾ |

### RAILROAD COMPANIES OPERATING NOT OVER FIFTY MILES OF ROAD

Regardless of the relation of Net Railway Operating Income to Gross Transportation Receipts the tax is 1¾% of such receipts.

* * *

There are nine railroads operating in the State of Maine. Their total road miles within the state is 1,816. Four railroads – the Bangor and Aroostook, the Boston and Maine, the Canadian Pacific and the Maine Central, account for 1,615 miles, and of this mileage, the Bangor and Aroostook and the Maine Central account for 602 miles and 793 miles, respectively. These two railroads, therefore, account for 1,395 miles of road in Maine – 86 per cent of the total mileage of the four railroads. The problem of railroad transportation in Maine, is, therefore, very much a problem of the Bangor and Aroostook and the Maine Central.



# The Current Situation

The problem of the Maine railroad, as well as most other railroads serving the eastern seaboard is one of sharply declining revenues. It is hardly necessary to examine the causes of this condition. They are almost common knowledge. There is no longer, nor has there been for many years, a monopoly of passenger and freight services as contemplated in the early railroad franchises. Automobiles, buses and airlines have ruined railroad passenger service as it was formerly known; and motor trucks have cut heavily into the business of short-haul freight. There are abundant statistics to demonstrate these trends, but the result, as reflected in the condition of the Maine Central, was clearly stated by the Maine Supreme Court (Maine Central Railroad vs. Public Utilities Commission 156 Maine 284):

> Although the Railroad has remained solvent thus far, its net earnings are entirely inadequate to provide necessary funds for proper replacement and improvement of equipment. It is in arrears as to payments of dividends on preferred stock and has paid no dividends on its common stock since 1931. Even more disturbing is the fact that the trend of earnings has been downward in the past few years. The Railroad is the sole guarantor of first mortgage bonds of its wholly owned subsidiary Portland Terminal Company in the amount of $9,350,000 which fall due July 1, 1961. The ability of the Railroad to refund these bonds on any reasonable basis is quite understandably a matter of genuine concern and even alarm on the part both of management and investment counsel charged with the responsibility of maintaining credit. The margin of safety, the amount by which gross revenues could decline before the Railroad lost coverage of its fixed charges has declined from 9% in 1956 to about 4.97% in 1959. The adverse trend is further demonstrated by the drop in rate of return on investment which moved from an inadequate 4% in 1956 to a confiscatory level of 2.84% in 1958.

These conditions have been sharply reflected in the railway service. Passenger service has become largely a matter of coach and head-end accommodations. The first-class service on the Boston and Maine, the State of Maine Express between New York and Portland, was abandoned on October 29, 1960 and all passenger service on the Maine Central was discontinued on September 6, 1960. The Canadian Pacific still carries first-class passengers through the State of Maine on its run from Montreal to St. John, New Brunswick. The Bangor and Aroostook operates one round trip passenger train daily between Northern Maine Junction and Caribou. The Boston and Maine operates four passenger trains a day for coach passengers only between Portland and Boston. The Canadian National Railroad has eliminated passenger service between Portland and Montreal, except during the summer, and the Belfast and Moosehead Lake Railroad has now discontinued all passenger service between Burnham Junction and Belfast. Until July 1960, there had been a total of 46 passenger trains discontinued since 1949, 30 of which were on the Maine Central. This left 24 trains a day, as compared to 70 in 1949. This situation continued until September 6, 1960, at which time the reduced service described above was instituted.

There can be little doubt of the validity of these abandonments from the standpoint of declining use (Table 19) – a loss of 61 per cent between 1949 and 1958. In the 10-year period (1949-58), both intrastate passenger rates were increased 30 per cent, and the Public Utilities Commission could find little fault with fare levels when viewed in comparison with the increased cost of providing service. Labor costs (including executive salaries) account for some 55 per cent of total operating expenses. In 1949, the passenger roads in Maine employed about 7,000 people. In 1958, they employed 5,440. Compensation, however, increased from $24.4 million in 1949 to $29.8 million in 1958. The matter of labor agreements has been blamed for additional costs, and taxes have undoubtedly been an important factor. The Public Utilities Commission recently commented (R.R. 3460, July, 1960, p. 25): "to the extent that taxation tends to have a destructive effect upon public transportation and particularly in the present rail passenger situation where taxation appears to be a major factor, we must accept the responsibility of advising this state and its elected representatives of the seriousness of the burden".

This vanishing service seems to have caused little concern to the state. Even the federal Department of Defense and the Post Office Department, expressed no apprehension. The Public Utilities Commission, while freely admitting that the railroads were in finan-

# TABLE 18A

## BANGOR AND AROOSTOOK RAILROAD – EXCISE TAXES AND INCOME 1953 – 1960

(In thousands of dollars)

| Year | Gross Receipts | % Rate of Tax | Maine Excise Tax | Amount of Tax (1950 Rates) | Net Railway Operating Income | Net Income | Tax as % of Net Income | Federal Income Taxes | Tax as % of Federal Taxes |
|---|---|---|---|---|---|---|---|---|---|
| 1953 | $12,906 | 3.75 | $484 | $516 | $1,804 | $1,151 | 42.1 | $709 | 68 |
| 1954 | 12,762 | 4.25 | 542 | 574 | 2,243 | 1,507 | 36.0 | 348 | 156 |
| 1955 | 12,030 | 4.25 | 511 | 541 | 2,288 | 1,407 | 36.3 | (135) | –– |
| 1956 | 13,077 | 4.75 | 621 | 654 | 3,035 | 2,109 | 29.4 | 275 | 226 |
| 1957 | 15,488 | 4.75 | 736 | 775 | 3,623 | 2,627 | 28.0 | 156 | 472 |
| 1958 | 15,088 | 4.25 | 641 | 675 | 2,979 | 1,989 | 32.2 | (82) | –– |
| 1959 | 13,758 | 4.25 | 584 | 615 | 2,556 | 1,432 | 40.8 | (578) | –– |
| 1960 | 12,784 | 3.75 | 481 | 506 | 1,402 | 380 | 126.6 | 0 | –– |

Source: Bangor and Aroostook Railroad Company Records.

NOTE: Because the Maine excise tax and the Federal income tax are computed on the basis of prior year's performance, Gross Receipts, Net Railway Operating Income, and Net Income are for one year prior to the year shown.

Tax deferrals a/c accelerated amortization and depreciation reflected in Federal corporation income taxes in full dollars:

| | | | |
|---|---|---|---|
| 1953 | $232,398 | 1957 | $1,098,672 |
| 1954 | 462,678 | 1958 | 962,156 |
| 1955 | 701,716 | 1959 | 783,374 |
| 1956 | 952,459 | 1960 | 156,832 |

# TABLE 18B

## MAINE CENTRAL RAILROAD – EXCISE TAXES AND INCOME 1953 – 1960

(In thousands of dollars)

| Year | State of Maine Proportion of Gross Receipts | % Rate of Tax | Maine Excise Tax | Amount of Tax (1950 Rates) | Net Railway Operating Income | Net Income | Tax as % of Net Income | Federal Income Taxes | Tax as % of Federal Taxes |
|---|---|---|---|---|---|---|---|---|---|
| 1953 | $22,132 | 3.25 | $719 | $775 | $2,614 | $1,561 | 46 | $1,450 | 50 |
| 1954 | 21,265 | 3.25 | 691 | 744 | 2,491 | 1,176 | 59 | 1,115 | 62 |
| 1955 | 20,297 | 3.25 | 660 | 710 | 1,825 | 682 | 97 | 61 | 1082 |
| 1956 | 20,814 | 3.25 | 676 | 728 | 2,289 | 1,114 | 61 | 984 | 69 |
| 1957 | 22,902 | 3.25 | 744 | 802 | 2,606 | 1,367 | 54 | 1,113 | 67 |
| 1958 | 22,519 | 3.25 | 732 | 788 | 2,145 | 921 | 79 | 417 | 176 |
| 1959 | 20,865 | 3.25 | 678 | 730 | 1,865 | 754 | 90 | 319 | 213 |
| 1960 | 20,449 | 3.25 | 665 | 716 | 1,989 | 807 | 82 | 236 | 282 |

Source: Annual Reports, Form A, Interstate Commerce Commission.

NOTE: Because the Maine excise tax and the Federal income tax are computed on the basis of prior year's performance, Gross Receipts, Net Railway Operating Income, and Net Income are for one year prior to the year shown.

## TABLE 19

PASSENGER SERVICE: 4 MAJOR MAINE RAILROADS
(1949 – 1958)

Total Passengers Carried

| | Year | | | | Per Cent of Change | | |
|---|---|---|---|---|---|---|---|
| Road | 1949 | 1953 | 1957 | 1958 | 1958 / 1949 | 1958 / 1953 | 1958 / 1957 |
| MeC | 671,597 | 487,087 | 303,496 | 231,926 | −65.5 | −52.4 | −23.6 |
| *BAR | 123,122 | 109,420 | 62,278 | 28,611 | −76.8 | −73.9 | −54.1 |
| CPR | 101,500 | 97,917 | 94,117 | 83,227 | −18.0 | −15.0 | −11.6 |
| CNR | 29,924 | 22,064 | 17,831 | 14,527 | −51.5 | −34.2 | −18.5 |
| Total | 926,143 | 716,488 | 477,722 | 358,291 | −61.3 | −50.0 | −25.0 |

*Rail only, BAR operates bus service.

** Passenger Miles – Class I Roads

| | Year | | | | Per Cent of Change | | |
|---|---|---|---|---|---|---|---|
| Road | 1949 | 1953 | 1957 | 1958 | 1958 / 1949 | 1958 / 1953 | 1958 / 1957 |
| MeC | 59,344,612 | 44,670,055 | 30,219,825 | 22,869,809 | −61.5 | −48.8 | −24.3 |
| *BAR | 11,842,926 | 12,095,805 | 7,088,084 | 3,202,410 | −73.0 | −73.5 | −54.8 |
| CPR | 18,493,570 | 17,983,200 | 17,282,600 | 15,302,800 | −17.3 | −14.9 | −11.5 |
| Total | 89,681,108 | 74,749,060 | 54,590,509 | 41,375,019 | −53.9 | −44.6 | −24.2 |

*Rail only.
**CNR line in New England not a Class I carrier through the entire period.

Source: Public Utilities Commission, *Investigation of Railroad Passenger Service*, R.R. #3460 (July 8, 1959).

cial trouble, nevertheless stated " that the complete discontinuance of railroad passenger service is not the best solution nor would such a move be in the public interest. Railroad passenger service is an integral and necessary part of the transportation system of this state ". In view of this conclusion, the Commission made seven recommendations – four pertaining to taxes and three pertaining to railroad management:

### TAXES

1. That the federal excise tax on passenger fares be completely repealed;
2. That in view of recent developments, specifically the proposed abandonment of passenger service, the Legislature reconsider the railroads request for tax relief;
3. That municipal assessors make every attempt to realistically value railroad property devoted to passenger service taking into consideration its limited utility value; and
4. That federal tax laws be amended to preserve for the railroads the full benefit of state and municipal tax relief or aid.

### MANAGEMENT

5. That railroad management take steps to dispose of surplus equipment, unneeded terminal and station facilities when and wherever possible;
6. That railroad management improve the attractiveness of service by offering clean and comfortable equipment, establish and maintain proper schedules and provide complete public timetables; and
7. Management and labor face the problem of revising work rules with realism and an awareness of the critical nature of this particular problem and its effect upon the continuation of service.

Hearings before the Public Utilities Commission in the fall of 1959, implied the abandonment of eight trains operated by the Maine Central. These trains provided three round trips daily from Portland to Bangor and one round trip between Portland and Vanceboro. On January 14, 1960, the Commission granted discontinuance of service via Lewiston-Auburn, but continued for a period of not less than a year, four trains giving service to Augusta. The railroad, however, appealed to the Supreme Court for further relief (Maine Central Railroad vs. Public Utilities Commission 156 Maine 284), and on a finding in law, granted much further relief. Reciting what it called "a trend which is national rather than merely local," the court summarized the difficulty:

> In 1949, 83.6% of the passenger travel in this country was by private automobile. By 1957 that figure had increased to 88.7%. In the same period railroad passenger traffic dropped from 8% to 3.7%. Meanwhile air travel increased from 1.9% to 3.9%. In Maine substantially less than 1½% of passenger travel in the area served by the railroad was by rail in 1959. All the rest moved by air and by buses and automobiles, the latter traveling over the Maine Turnpike and the main public highways between the communities served by the railroad. By 1957 there was a passenger automobile for every 3.4 persons. In 1959 less than ½ of 1% of the population of those communities made any use of the passenger service offered by the railroad. Here also railroad passenger travel has been steadily declining. From 1949 to 1958 the number of passengers showed a drop of 65.5% and estimates of 1959 business indicated that the percentage of reduction in passenger use would reach 83%, this in a decade which produced a 60% increase in travel by all means of transportation.

Replying to the criticism that the railroads have failed to provide services adequate to meet the mounting competition of other common carriers, the Court stated:

> The railroad has been criticized for not making its service more attractive to passengers. It has been charged with faulty housekeeping and unsatisfactory schedules, and has even been accused by some witnesses of deliberately attempting to discourage passenger use of its facilities. Any present lack of interest in attempting to increase the patronage of its passenger trains may well be attributed to the frustrating experiences of recent years. For the railroad has made determined attempts to please and attract passenger business. It is significant that such efforts, the purchase of new and most modern equipment, the employment of all advertising media, the use of reduced fares for multiple rides and group travel, all completely failed to halt or even retard the steady reduction in passenger travel. The train cannot transport a passenger from his home to his destination on a schedule of his own making as can the private automobile, nor can it carry him with the speed of an airplane – and these appear to be the overriding considerations which dictate the choice of the traveling public and create the trend which must be recognized as one of the realities of our day.

The Court went beyond the passenger service problem and warned concerning the impairment of the more vital economic need of sustained freight service:

> We are satisfied that the somewhat precarious financial position of the railroad sets limits to the risks which may be taken with its ability to furnish proper freight service. This is especially true when past experience and present trends make it possible to foretell with relative certainty the disappointing and unsatisfactory result of the experiment. The evidence makes it abundantly clear that there is some urgency in this matter and any further impairment of the capacity of the railroad to perform its essential function as a freight carrier is not in the public interest.

The Court concluded:

> Whatever hope the common stockholders have of ever receiving a dividend, or the preferred stockholders of being paid both their arrearage and future dividends as they accrue, or the bondholders of ultimately being paid in full, lies in the elimination of passenger train losses and the development and improvement of a profitable freight service. The railroad is entitled to earn a fair return on its investment and is currently earning only 2.84%. This fact alone should furnish a deterrent to withholding the most obvious remedy. When the arm is hopelessly gangrenous and amputation is indicated, further delay may cause the whole body to be beset and the patient to die. The time for remedial action is now and not many months from now.

**The principal consideration before the Legislature is this: Both the Public Utilities Commission and the State Supreme Court, following extended hearings and careful judicial consideration, have granted substantial service relief to the railroads. If the Legislature accepts these**

**administrative and judicial findings, will it likewise accept the policy and provide some form of tax relief? In other words, the administrative and judicial branches of the state government of Maine have shown apprehension concerning the railroad situation and have granted substantial relief. The same issue is now before the Legislature.**

## The Railroads' Program

Although the railroads received considerable fiscal relief from the abandonment of passenger services, wage increases have cut heavily into their savings. Following several long conferences with railroad management, the following information was developed: It is estimated that the Maine Central direct loss from the operation of passenger trains was some $644,000 a year. As a result of national negotiation, however, wage increases, including adjustments to keep supervisory personnel reasonably above contract employees, will cost the company about $500,000 annually. Although rate increases were authorized by the Interstate Commerce Commission effective October 24 of this year, it is unlikely that they will net more than $200,000.

Encouraged, however, with a possible net gain of some $344,000 ($644,000 + $200,000 less $500,000), the Maine Central has undertaken a new equipment program. Orders have been placed for second-hand freight cars to be remodeled for shipping slabs and chips for the paper industry. Orders are outstanding for new tank cars to permit the shipment of petroleum, at lower rates, for several state industries. On the theory that larger volumes of freight at low rates are preferable to small volumes at high rates, the Maine Central has started a series of rate adjustments that will in some cases, be below levels authorized by the regulatory bodies. Interstate reductions include adjustments for wood pulp, printing paper, cement, and clay. The local rate reductions and others contemplated, are reported as follows:

### LOCAL RATE REDUCTIONS

**Coal:**

Substantial reductions have been made on Pulpwood, Logs and Petroleum Products.

Tidewater Coal rates have been reduced Bath to Pejepscot Mills (Pejepscot Paper Co.) 25c per net ton; Portland to Cumberland Mills, (S. D. Warren Co.) 25c per net ton.

**Canned Goods:**

Many rates on Canned Goods to assist canners in Maine have been reduced to various destinations in New England and the Metropolitan New York area.

**Lime Rock:**

This rate on Lime Rock from Warren, Maine (Lime Products Corp.) to Presque Isle, Maine has recently been reduced in order to move the traffic.

**Drayage:**

Maine Central has established free drayage on Newsprint Paper when originating within the State of Maine. The cost of this drayage service averages about $2 per ton, and thereby constitutes a substantial rate reduction.

### PROPOSED REDUCTIONS

**Slabs and Edgings:**

From Winn and Whitneyville to Oakland for account of the Androscoggin Corp. These Slabs and Edgings to be converted to Wood Chips.

Wood Chips from Oakland (Androscoggin Corp.) to Rumford, Maine, (Oxford Paper Co.). These Wood Chips will supplant Stick Pulpwood in the manufacture of Paper.

**Lime Rock:**

We are studying a reduced rate on Lime Rock from Warren to Winslow for the Scott Paper Company.

**Newsprint:**

Rates interstate to Official Classification Territory to be increased 2c per cwt. and free drayage will be provided. Minimum charge for drayage absorbed by the railroads will be $2.50 N.T. and Maine Central will absorb its proportion of this drayage charge. This again will result in a worthwhile rate reduction to the shipper.

The Maine Central reports other urgent needs:

There is a severe shortage in first-class box cars of high volumetric capacity — acquisitions would cost possibly $8 million over a 4-year period.

Truck and highway re-alignments in the city of Waterville are urgently required — the cost would be some $250,000.

Improvement of grade crossing protection at five locations at an estimated capital expenditure of $113,300.

The Bangor and Aroostook has faced similar problems and undertaken similar adjustments. It has also received fiscal relief from changes in its rail passenger service. The wage increase granted in 1960 as a result of national negotiations, plus necessary adjustments for supervisory employees, amounts to an annual cost of over $300,000 for the BAR. While the freight rate increase granted under Ex Parte 223 (Interstate Commerce Commission), effective October 20, 1960, will help, it only results in additional revenue of about $95,000 per year, even if no loss of traffic results.

Since World War II, the Bangor and Aroostook has spent about $50,000,000 for new equipment. This includes $11,500,000 for the acquisition of RS-type refrigerator cars used to transport and protect northern Maine's potato crop.

Using the railroad pricing mechanism to attract volume business at low rates, the following joint and local rate reductions have been made by the Bangor and Aroostook:

### RECENT RATE ADJUSTMENTS

JOINT RATES:

**Slabs:** Ashland, Maine to Oakland, Maine. Commodity rates established. Reduction.

**Logs:** Ashland, Maine)
Houlton, Maine)
Portage, Maine) to Bingham, Maine.
Presque Isle, Maine) Reduction.
Smyrna Mills, Maine)
Stockholm, Maine)

**Logs:** BAR to Mattawamkeag, Maine. New commodity rates. Reduction.

**Nitrogen Solution:** Searsport to Portland, Maine (Grand Trunk). New commodity rates. Reduction.

**Starch:** Established delivery service on starch at Lewiston & Lewiston Lower, Maine.

**Paper Makers Alum:** Searsport, Maine to Gorham and Groveton, N. H. Reduction.

**Tapioca Flour:** Searsport to various MeC destinations. New commodity rates. Reduction.

**Lumber:** Ashland to St. Catherines, Ontario. New commodity rate. Reduction.

**Frozen Foods:** BAR to Brockport, Buffalo, Syracuse and Mt. Morris. New York. Reduction.

**Starch:** Established incentive rates on starch to Boston, Lawrence, Lowell, Wachusett and West Fitchburg, Massachusetts, also Berlin, Groveton, Manchester and Nashua, N. H.

**Newsprint:** Additional points added for drayage of newsprint in New England and Trunk Line Territories.

LOCAL:

Tapioca Flour and Corn Starch Searsport to BAR stations: New commodity rates. Reduction.
Charcoal Derby to Fort Kent. New commodity rates. Reduction.
Break bulk tariff at North Bangor, Maine.
Bakery Goods: Established delivery arrangements.
Logs: Smyrna Mills to Searsport, Maine for export.

The Bangor and Aroostook reports that it hopes to make an investment of approximately $10,500,000 for equipment within the next five years. Among the items reported are:

| | |
|---|---|
| Convert 60 insulated box cars to bulk potato cars @ $5,800 each | $ 348,000 |
| Install Preco Cargo Temp or other similar device in 1188 RS-type refrigerator cars @ $2,200 each | $2,613,600 |
| Complete the conversion of 113 side dump pulpwood cars to end racks @ $2,500 | $ 282,500 |
| Purchase 600 new box cars for the movement of paper and other commodities requiring Class A cars @ $11,500 each | $6,900,000 |
| Continued purchase of labor-serving equipment amounting to at least | $ 257,000 |

With a continuing demand for specialized types of equipment, it is easy to foresee additional large capital expenditures on the BAR. This would include items such as specialized lumber cars, wood chip cars, bulk fertilizer cars, mechanical refrigerator cars and modernization of port facilities at Searsport.

# A Tax Proposal

The above statement is intended to present in brief outline the fiscal and service requirements of the two principal railroads in Maine. As has been said, both the Public Utilities Commission and the State Supreme Court have looked upon their problems as critical and urged and granted substantial relief. The same issues are now before the Legislature and resolve themselves into two questions: **1) How far is a Legislature justified in using the taxing power to sustain an essential service? and 2) What forms can such an effort take?**

As to the first question: There is no doubt that the taxing power can and always has been used for other than revenue purposes. There are, indeed, those who look upon it as a major instrument of social adjustment. Without accepting, however, an extreme point of view, taxes that are regulatory (liquor taxes), protective (customs duties) and socially beneficial (security taxes) are thoroughly established; and "tax relief" in times of economic depressions (tax limitations and homestead exemptions) is common practice among the American States. An essential industry vested with a public interest, is equally entitled to public assistance. It requires something more than a subsidy which is little more than a public grant to sustain a service. What is needed is a reduction in costs, that can be reflected in increased earnings. The only costs that do not depend upon a contractual relation is a tax; and the only body that can reduce it is a legislature. The only questions are the need, extent and methods of relief.

As to the second question: What forms can such an effort take? There are these things to be said. In the first place, a legislature should be aware that, under favorable regulatory and judicial conditions (as have been amply demonstrated in Maine) a railroad is quite capable of engaging in "self-help" tax reductions. Under the present tax laws, gross receipts is the base and track miles the allocating factor. A reduction in either of these, means a loss of taxes to the State. If the Maine Central should feel compelled to abandon all mail-merchandise trains (trains that expedite mail, freight and express) that are now losing money, and at the same time discontinue weak-earning branch lines such as the Farmington Branch, the Skowhegan Branch, the Harmony Branch and the 150 miles of line in Washington County, it could make substantial reduction in its tax liabilities. These are unpleasant steps for railroad management to contemplate. They would certainly be undertaken only as a last resort, and would be damaging to both the railroad and the State. But a hard-pressed industry can take hard looks at unprofitable operations.

If some form of tax relief were contemplated, the Legislature could choose one of two alternatives: 1) abandon the present tax structure, or 2) make adjustments within the present tax structure. As has been said, a tax on gross receipts of any kind has little reference to capacity to pay, and is particularly burdensome at a time of declining revenues. Even though the present gross receipts base is related to net operating income, net will fall much more rapidly than gross because fixed charges are inflexible. Under such circumstances, the ratio of net to gross will decrease, and the tax rate will decline until it reaches the minimum rate of 3.25 per cent. Even the lowest rate is a heavy burden in the absence of sufficient net income.

There is another question in regard to taxing gross receipts – a long range question – which may become important to Maine's economy, that is, the matter of railroad mergers. James M. Symes, President of the Pennsylvania Railroad, said recently:

> "If someone asked me what I consider the most important single thing the railroads can do to get their industry back to its healthy and vigorous status of 30 years ago, and ready to take a progressive place in the 'transportation of tomorrow', I would answer in one word – mergers."

The idea of the merger is to substitute a small group of strong roads for a large number of weak roads. The purpose is to direct traffic to the best routes; abandon unnecessary lines; merge terminal and repair operations, and dispose of unnecessary plants. This would reduce operating and maintenance costs, permit modernization of the rate structures; and realize substantial sums from the sale of excess real estate and equipment to modernize the new plant. Under such conditions it is even hoped that passenger service might be revived and improved.

While it is purely problematical, it is conceivable that mergers might some day become important with the small Maine railroads and any of the trunk line systems. In any such proposal, the ratio of track miles to gross receipts would be an important consideration.

For example, if two railroads were considering a merger, one with 1,000 miles of track within Maine and one with 2,000 miles of track outside of Maine, the allocation factor would be 1 to 3. But if the outside track earned $100 million in gross revenues and the inside track $20 million, the earnings factor would be 1 to 6. Obviously, such a formula would be difficult for the road with the higher gross earnings to accept, particularly as one or both roads might be losing money.

Should, however, the gross receipts base be abandoned, there is only one alternative – a net income tax. This would doubtless appeal to the railroads, as it does to all business in a period of low earnings. It is the only tax that relates tax liabilities to capacity to pay, and gives the same protection to the taxpayer that a net income tax gives to individuals or corporations. There is this hitch, however, with the present condition of earnings, there would, at anything like conventional rates, be almost no revenue for the State; and whatever the consideration of equity, the general fund is in no condition to absorb what might well be a $2 million loss, nor is such substantial relief necessary or even desired at this time.

Such a condition would bring the Legislature to the second alternative – adjustments within the present tax structure. This suggests two alternatives: 1) to reduce the present rates; or 2) to adjust the present base. A rate reduction (as in 1951) could be used to bring about such results as the Legislature might determine. This would leave the present structure unaltered. While the railroads admit that this method has the advantage of simplicity, they feel that it lacks stability – that is, it tends to require a constant re-examination of rates that have no tie-in with earning power or investment. Legislative history indicates the validity of this position. What we are seeking is a method that will assure railroad solvency and at the same time provide the state with maximum tax yields, once earning power is restored and maintained. This is admittedly a different treatment from that accorded private business, but the argument is that railroads are a different type of business. They are a regulated business – they are publicly controlled as to rates, property and services; they no longer enjoy the monopoly that their early franchises contemplated; and they are an essential public service without which the present economy could not be sustained.

At the last session of the Legislature, the railroads presented a plan for tax adjustment. The proposal suggested three things:

1) The present excise tax structure and the present excise tax rates to be left unchanged;

2) The tax to be reduced by an amount equal to the difference between the net railway operating income necessary to raise 5¾ per cent on investment, and actual net operating income of the preceding year; and –

3) Under no conditions would the tax be less than 1 per cent of the gross.

The formula would work like this:

| | | |
|---|---|---|
| 1) | Gross receipts | $20,000,000 |
| 2) | Net operating income preceding year | $ 2,271,000 |
| 3) | Total investment | $64,000,000 |
| 4) | Amount of net operating income necessary to receive 5¾ per cent on total investment | $3,680,000 |
| 5) | Difference between 4 and 2 – credit to be added to net operating income | $1,409,000 |
| 6) | Tax due current year | $ 750,000 |
| 7) | Difference between 6 and 5 – tax liability under the formula | $–659,000 |
| 8) | One per cent of gross ($20 million) | $ 200,000 |
| 9) | Tax due (the greater of 7 or 8) | $ 200,000 |

This is not a new concept to the Maine tax structure. The Public Utilities Commission has established a 5.9 per cent return to the Central Maine Power Company. Provisions for the taxation of short lines and narrow-gauge railroads provide similar limitations – for narrow-gauge roads there is a floor (less than 5 per cent of operating receipts) below which there is no tax; and for short lines, a ceiling – no tax to exceed 1¾ per cent of gross receipts. The federal corporate income tax recognizes the principle in providing a tax loss carry forward for corporations that have had heavy loss years, by permitting the loss to be carried as a credit against future earnings over a period of five years.

* * *

If the Legislature decides to give some tax relief to the railroads, it is suggested that the following steps be taken which are, with some modification and additions, the same proposal that was before the 1959 legislature:

I. That a preamble be appended to the bill amending R. S., c. 16, Sec. 116, which would read somewhat as follows:

WHEREAS, in recognition of the significant growth and development in recent years of other forms of transportation, and the resulting impairment of the financial condition of the railroad industry in the State of Maine as established by the Public Utilities Commission and the State Supreme Court, it is hereby declared to be the policy of the legislature to promote the economic and industrial welfare of Maine through the encouragement of a sound system of transportation, and,

WHEREAS, it is recognized that a solvent, efficient and prosperous railroad system, capable of furnishing good freight service, adequate equipment and providing a fair and equitable rate structure is essential for this purpose, and that,

WHEREAS, taxation of railroads operating in this State should bear a reasonable relation to the earning power and therefore to the value of property dedicated to railroad use.

II. That R.S., c. 16, Sec. 116, be amended as follows:

**Be it enacted:**

The first paragraph of Section 116 of Chapter 16 of the Revised Statutes is hereby amended to read as follows:

**Sec. 116. Amount of tax.** – The amount of the annual excise tax on railroads shall be ascertained as follows: the amount of the gross transportation receipts as returned to the public utilities commission for the year ended on the 31st day of December preceding the levying of such tax shall be compared with the net railway operating income for that year as returned to the public utilities commission; when the net railway operating income does not exceed 10% of the gross transportation receipts, the tax shall be an amount equal to 3¼% of such gross transportation receipts; when the net railway operating income exceeds 10% of the gross transportation receipts but does not exceed 15%, the tax shall be an amount equal to 3¾% of the gross transportation receipts; when the net railway operating income exceeds 15% of the gross transportation receipts but does not exceed 20%, the tax shall be an amount equal to 4¼% of such gross transportation receipts; when the net railway operating income exceeds 20% of the gross transportation receipts but does not exceed 25%, the tax shall be an amount equal to 4¾% of such gross transportation receipts; when the net railway operating income exceeds 25% of the gross transportation receipts, the tax shall be an amount equal to 5¼% of such gross transportation receipts; **provided, however, that when net railway operating income for the preceding year is less than 5¾% of investment in transportation property, less depreciation and plus cash (including temporary cash investments and special deposits) and material and supplies, as reported by the railroad in its annual report to the public utilities commission, the tax payable shall be diminished by a sum which added to said net railway operating income would equal 5¾% of the investment as aforesaid; except that in any event the tax payable shall not be diminished below a minimum amount equal to 2% of the gross transportation receipts for the year 1961 and equal to 1% of the gross transportation receipts for each succeeding year;** and provided, **further,** that in the case of railroads operating not over 50 miles of road, the tax shall not exceed 1¾% of the gross transportation receipts; and provided further, that when the net railway operating income of any narrow gauge railroad located wholly in this state exceeds 5% but does not exceed 10% of its gross transportation receipts, the tax on such railroad shall be ¼ of 1% of its gross transportation receipts; and when the net railway operating income of such railroad exceeds 10% of its gross transportation receipts, the tax shall be ¾% of its gross transportation receipts; and when the net railway operating income of such a railroad does not exceed 5% of its gross transportation receipts, no excise tax shall be assessed upon it. When a railroad lies partly within and partly without the state or is operated as a part of a line or system extending beyond the state, the tax shall be equal to the same proportion of the gross transportation receipts in the state as herein provided, . . .

* * *

The results of this proposal from the standpoint of state revenue would be as follows:

| Railroad | Present Tax | Tax Paid[1] (1960) | Estimated Tax[2] under Proposal 1st Year (1962) | Estimated Tax[2] under Proposal 2nd Year (1963) | Tax Savings under Proposal 1st Year | Tax Savings under Proposal 2nd Year |
|---|---|---|---|---|---|---|
| Aroostook Valley | 1¾% | $ 3,887 | $ 3,887 | $ 2,221 | $ —— | $ 1,666 |
| Belfast & Moosehead Lake | 1¾ | 4,146 | 4,146 | 3,534 | —— | 612 |
| Bangor and Aroostook | 3¾ | 479,384 | 255,671 | 127,836 | 223,713 | 351,548 |
| Boston and Maine | 3¼ | 66,541 | 40,978 | 20,489 | 25,563 | 46,052 |
| Canadian National | 3¼ | 79,872 | 49,152 | 24,576 | 30,720 | 55,296 |
| Canadian Pacific | 3¼ | 203,201 | 125,047 | 62,523 | 78,154 | 140,678 |
| Maine Central | 3¼ | 664,594 | 408,981 | 204,490 | 255,613 | 460,104 |
| Portland Terminal Co. | 1¾ | 4,090 | 4,090 | 2,337 | —— | 1,753 |
| Sanford and Eastern | 1¾ | 1,936 | 1,936 | 1,106 | —— | 830 |
| | | $1,507,651 | $893,888 | $449,112 | $613,763 | $1,058,539 |

[1]Based upon gross transportation receipts for 1959. The only change in tax to be paid in 1961 would be brought about by a variation in the total gross transportation receipts of all the railroads for the year 1960. In other words the present formula and tax rate will apply.

[2]1st year column reflects tax which would be paid in 1962 assuming no variation from 1959 in gross transportation receipts. 2nd year column reflects tax which would be paid in 1963 assuming no variation from 1959 in gross transportation receipts.

It should be emphasized that railroad accounting and the application of the statutes to payments have to do with a calendar year. On the other hand, the state is on a fiscal year (July 1 – June 30). It therefore follows that while the proposed modification will have no effect upon taxes paid to the state until the calendar year 1962, it will affect receipts by the state in the fiscal year July 1, 1961 – June 30, 1962.

III. Amend R.S., c. 38-A, Sec. 4 to specifically authorize the Division of Research and Planning of the Department of Economic Development to undertake a comprehensive study of the transportation needs of the State which would embrace the following:

A. The potential economic growth of the state – its location, type and transportation needs;

B. The coordination of motor vehicle, bus, air and railroad transportation – intrastate and interstate;

C. The possibilities of railroad mergers to link Maine more strongly to the South and West.

Require that all railroads operating in this State shall file a report on or before May 1 of each year with the Department of Economic Development stating capital expenditures made during the previous calendar year and specifying, with reasonable detail, the capital improvements made, including a description by type and use of new rolling stock and other equipment acquired.

It is further suggested that the Department of Economic Development make inquiry into the service, equipment and rate structure provided by the railroads serving the State and report yearly to the Governor with respect to its findings, suggestions and any plans calculated to meet the transportation needs of the State and to improve the competitive position of its industries.

# APPENDIX I

## STATE OF MAINE

### THE GENERAL FUND
### July 1, 1941 to June 30, 1963

(amounts in thousands of dollars)

| | | Receipts[1] | | Expenditures[2] | | Excess or | Cash |
|---|---|---|---|---|---|---|---|
| | | Amount | % Change | Amount | % Change | Deficit | Balance [3] |
| July 1, 1941 | | | | | | | $ 489 |
| Fiscal Year | 1941-42 | $19,362 | 13.31 | $18,254 | 10.31 | $ 1,108 | 1,597 |
| " " | 1942-43 | 20,767 | 7.26 | 17,797 | −2.50 | 2,970 | 4,567 |
| " " | 1943-44 | 22,434 | 8.03 | 21,222 | 19.24 | 1,212 | 5,779 |
| " " | 1944-45 | 22,615 | .81 | 20,133 | −5.13 | 2,482 | 8,261 |
| " " | 1945-46 | 24,355 | 7.69 | 24,586 | 22.12 | −231D | 8,030 |
| " " | 1946-47 | 27,592 | 13.29 | 28,873 | 17.44 | −1,281D | 6,749 |
| " " | 1947-48 | 30,400 | 10.18 | 29,947 | 3.72 | 453 | 7,202 |
| " " | 1948-49 | 31,144 | 2.45 | 30,974 | 3.43 | 170 | 7,372 |
| " " | 1949-50 | 32,254 | 3.56 | 33,582 | 8.42 | −1,328D | 6,044 |
| " " | 1950-51 | 34,273 | 6.26 | 37,330 | 11.16 | −3,057D | 2,987 |
| " " | 1951-52 | 46,079 | 34.45 | 38,143 | 2.18 | 7,936 | 10,923 |
| " " | 1952-53 | 45,267 | −1.76 | 39,763 | 4.25 | 5,504 | 16,427 |
| " " | 1953-54 | 45,660 | .87 | 42,750 | 7.51 | 2,910 | 19,337 |
| " " | 1954-55 | 47,482 | 3.99 | 49,841 | 16.59 | −2,359D | 16,978 |
| " " | 1955-56 | 51,511 | 8.49 | 51,734 | 3.80 | −223D | 16,755 |
| " " | 1956-57 | 54,755 | 6.30 | 52,795 | 2.05 | 1,960 | 18,715 |
| " " | 1957-58 | 63,730 | 16.39 | 64,027 | 21.27 | −297D | 18,418 |
| " " | 1958-59 | 68,016 | 6.73 | 69,393 | 8.38 | −1,377D | 17,041 |
| " " | 1959-60[1] | 78,183 | 14.95 | 74,425 | 7.25 | 3,758 | 20,799 |
| Adopted Budget | 1960-61 | 73,192 | −6.38 | 72,875 | −2.08 | 317 | 21,116 est. |
| Budget Request | 1961-62 | 78,375 | 7.08 | 93,144 | 27.81 | −14,769D | 6,347 est. |
| Budget Request | 1962-63 | 79,785 | 1.80 | 96,196 | 3.28 | −16,411D | −10,064 est. |

[1] Current receipts plus proceeds from a $3,950,000 bond issue in 1959-60. Percentages show change from previous year.

[2] Expenditures adjusted to reflect changes in surplus and reserve accounts. Percentages show change from previous year.

[3] Includes cash and short term U.S. Government securities on hand on June 30th.

Source: Department of Finance and Administration, *State of Maine Financial Report*, 1941-1960 and unpublished reports (Augusta, Me.: 1942-1960).

# APPENDIX II

## STATE OF MAINE

### THE HIGHWAY FUND
### July 1, 1941 to June 30, 1963

(amounts in thousands of dollars)

| | | Receipts[1] Amount | Receipts[1] % Change | Expenditures[2] Amount | Expenditures[2] % Change | Excess or Deficit | Cash Balance[3] |
|---|---|---|---|---|---|---|---|
| July 1, 1941 | | | | | | | $ 5,398 |
| Fiscal Year | 1941-42 | $13,294 | .06 | $13,436 | 8.19 | $ –142D | 5,256 |
| " " | 1942-43 | 10,393 | –21.82 | 9,023 | –32.84 | 1,370 | 6,626 |
| " " | 1943-44 | 9,571 | –7.91 | 9,480 | 5.06 | 91 | 6,717 |
| " " | 1944-45 | 9,699 | 1.34 | 9,726 | 2.59 | –27D | 6,690 |
| " " | 1945-46 | 11,381 | 17.34 | 10,985 | 12.94 | 396 | 7,086 |
| " " | 1946-47 | 15,211 | 33.65 | 16,118 | 46.72 | –907D | 6,179 |
| " " | 1947-48 | 20,197 | 32.78 | 20,071 | 24.53 | 126 | 6,305 |
| " " | 1948-49 | 22,265 | 10.24 | 23,206 | 15.62 | –941D | 5,364 |
| " " | 1949-50 | 23,986 | 7.73 | 24,219 | 4.37 | –233D | 5,131 |
| " " | 1950-51 | 25,580 | 6.65 | 24,615 | 1.64 | 965 | 6,096 |
| " " | 1951-52 | 26,833 | 4.90 | 26,393 | 7.22 | 440 | 6,536 |
| " " | 1952-53 | 55,738 | 107.72 | 33,770 | 27.95 | 21,968 | 28,504 |
| " " | 1953-54 | 30,103 | –45.99 | 35,712 | 5.75 | –5,609D | 22,895 |
| " " | 1954-55 | 31,813 | 5.68 | 36,494 | 2.19 | –4,681D | 18,214 |
| " " | 1955-56 | 37,475 | 17.80 | 38,657 | 5.93 | –1,182D | 17,032 |
| " " | 1956-57 | 40,107 | 7.02 | 40,623 | 5.09 | –516D | 16,516 |
| " " | 1957-58 | 44,069 | 9.88 | 49,306 | 21.37 | –5,237D | 11,279 |
| " " | 1958-59 | 58,508 | 32.76 | 58,625 | 18.90 | –117D | 11,162 |
| " " | 1959-60 | 66,572 | 13.78 | 59,516 | 1.52 | 7,056 | 18,218 |
| Adopted Budget | 1960-61 | 54,329 | –18.39 | 67,442 | 13.32 | –13,113D | 5,105 est. |
| Budget Request | 1961-62 | 59,546 | 9.60 | 68,262 | 1.22 | –8,716D | –3,611 est. |
| Budget Request | 1962-63 | 58,746 | –1.34 | 64,244 | –5.89 | –5,498D | –9,109 est. |

[1] Current receipts plus proceeds from bond issues as follows: 1940-41, $1,000,000; 1941-42, $1,203,000; 1952-53, $27,000,000; 1958-59, $3,500,000; 1959-60, $9,000,000. Percentages show change from previous year.

[2] Expenditures adjusted to reflect changes in surplus and reserve accounts. Percentages show change from previous year.

[3] Includes cash and short term U. S. Government securities on hand on June 30th.

Source: Department of Finance and Administration, *State of Maine Financial Report,* 1941-1960 and unpublished reports (Augusta, Me.: 1942-1960).

# APPENDIX III

## STATE OF MAINE

### SPECIAL FUNDS
July 1, 1941 to June 30, 1963

(amounts in thousands of dollars)

| | | | Receipts[1] | | Expenditures [1] | | Excess or | Cash |
|---|---|---|---|---|---|---|---|---|
| | | | Amount | % Change | Amount | % Change | Deficit | Balance [2] |
| July 1, 1941 | | | | | | | | $ 589 |
| Fiscal | Year | 1941-42 | $ 1,775 | 43.72 | $ 1,800 | 74.08 | $ –25D | 564 |
| " | " | 1942-43 | 1,790 | .85 | 1,596 | –11.33 | 194 | 758 |
| " | " | 1943-44 | 2,179 | 21.73 | 2,124 | 33.08 | 55 | 813 |
| " | " | 1944-45 | 2,060 | –5.46 | 2,135 | .52 | –75D | 738 |
| " | " | 1945-46 | 1,999 | –2.96 | 1,934 | –9.41 | 65 | 803 |
| " | " | 1946-47 | 3,062 | 53.18 | 2,963 | 53.21 | 99 | 902 |
| " | " | 1947-48 | 3,992 | 30.37 | 3,799 | 28.21 | 193 | 1,095 |
| " | " | 1948-49 | 4,937 | 23.67 | 5,073 | 33.54 | –136D | 959 |
| " | " | 1949-50 | 5,188 | 5.08 | 5,021 | –1.03 | 167 | 1,126 |
| " | " | 1950-51 | 5,125 | –1.21 | 4,885 | –2.71 | 240 | 1,366 |
| " | " | 1951-52 | 5,991 | 16.90 | 5,299 | 8.47 | 692 | 2,058 |
| " | " | 1952-53 | 6,264 | 4.56 | 6,462 | 21.95 | –198D | 1,860 |
| " | " | 1953-54 | 6,253 | –.18 | 5,834 | –9.72 | 419 | 2,279 |
| " | " | 1954-55 | 6,380 | 2.03 | 6,300 | 7.99 | 80 | 2,359 |
| " | " | 1955-56 | 7,290 | 14.26 | 6,775 | 7.54 | 515 | 2,874 |
| " | " | 1956-57 | 8,403 | 15.27 | 8,004 | 18.14 | 399 | 3,273 |
| " | " | 1957-58 | 8,941 | 6.40 | 8,472 | 5.85 | 469 | 3,742 |
| " | " | 1958-59 | 9,191 | 2.80 | 9,203 | 8.63 | –12D | 3,730 |
| " | " | 1959-60 | 9,745 | 6.03 | 9,647 | 4.82 | 98 | 3,828 |
| Adopted | Budget | 1960-61 | 10,606 | 8.84 | 11,444 | 18.63 | –838D | 2,990 est. |
| Budget | Request | 1961-62 | 10,495 | –1.05 | 10,666 | –6.80 | –171D | 2,819 est. |
| Budget | Request | 1962-63 | 10,314 | –1.72 | 10,473 | –1.81 | –159D | 2,660 est. |

[1] Receipts and expenditures adjusted to reflect changes in surplus and reserve accounts. Percentages show change from previous year.

[2] Includes cash and short term U. S. Government securities on hand on June 30th.

Source: Department of Finance and Administration, *State of Maine Financial Report*, 1941-1960 and unpublished reports (Augusta, Me.: 1942-1960).

# APPENDIX IV

## STATE OF MAINE

### ALL OPERATING FUNDS
### (General Fund, Highway Fund, and Special Funds)
### July 1, 1941 to June 30, 1963

(amounts in thousands of dollars)

| | | | Receipts[1] | | Expenditures[1] | | Excess or | Cash |
|---|---|---|---|---|---|---|---|---|
| | | | Amount | % Change | Amount | % Change | Deficit | Balance [2] |
| July 1, 1941 | | | | | | | | $ 6,476 |
| Fiscal Year | | 1941-42 | $34,561 | 9.25 | $33,620 | 11.96 | $ 941 | 7,417 |
| " | " | 1942-43 | 33,189 | −3.97 | 28,655 | −14.77 | 4,534 | 11,951 |
| " | " | 1943-44 | 34,281 | 3.29 | 32,923 | 14.89 | 1,358 | 13,309 |
| " | " | 1944-45 | 34,277 | −.01 | 31,897 | −3.12 | 2,380 | 15,689 |
| " | " | 1945-46 | 37,758 | 10.16 | 37,528 | 17.65 | 230 | 15,919 |
| " | " | 1946-47 | 45,732 | 21.12 | 47,821 | 27.43 | −2,089D | 13,830 |
| " | " | 1947-48 | 54,395 | 18.94 | 53,623 | 12.13 | 772 | 14,602 |
| " | " | 1948-49 | 58,157 | 6.92 | 59,064 | 10.15 | −907D | 13,695 |
| " | " | 1949-50 | 61,210 | 5.25 | 62,604 | 5.99 | −1,394D | 12,301 |
| " | " | 1950-51 | 64,759 | 5.80 | 66,611 | 6.40 | −1,852D | 10,449 |
| " | " | 1951-52 | 78,572 | 21.33 | 69,504 | 4.34 | 9,068 | 19,517 |
| " | " | 1952-53 | 107,001 | 36.18 | 79,727 | 14.71 | 27,274 | 46,791 |
| " | " | 1953-54 | 81,721 | −23.63 | 84,001 | 5.36 | −2,280D | 44,511 |
| " | " | 1954-55 | 85,366 | 4.46 | 92,326 | 9.91 | −6,960D | 37,551 |
| " | " | 1955-56 | 95,922 | 12.37 | 96,812 | 4.86 | −890D | 36,661 |
| " | " | 1956-57 | 102,885 | 7.26 | 101,042 | 4.37 | 1,843 | 38,504 |
| " | " | 1957-58 | 115,582 | 12.34 | 120,647 | 19.40 | −5,065D | 33,439 |
| " | " | 1958-59 | 134,429 | 16.31 | 135,935 | 12.67 | −1,506D | 31,933 |
| " | " | 1959-60 | 152,893 | 13.74 | 141,981 | 4.45 | 10,912 | 42,845 |
| Adopted | Budget | 1960-61 | 136,699 | −10.59 | 150,333 | 5.88 | −13,634D | 29,211 est. |
| Budget | Request | 1961-62 | 146,677 | 7.30 | 170,333 | 13.30 | −23,656D | 5,555 est. |
| Budget | Request | 1962-63 | 147,089 | .28 | 169,157 | −.69 | −22,068D | −16,513 est. |

[1] Receipts and expenditures adjusted to reflect proceeds from bond issues and increases and deductions in surplus and reserve accounts. Interfund transfers have been eliminated. Percentages show change from previous year.

[2] Includes cash and short term U. S. Government securities on hand on June 30th.

Source: Department of Finance and Administration, *State of Maine Financial Report,* 1941-1960 and unpublished reports (Augusta, Me.: 1942-1960).

# APPENDIX V

## STATE OF MAINE

### STATE AND LOCAL TAXES
Fiscal Year 1959

(amounts in thousands of dollars)

| | Total | | State | | Local[1] | |
|---|---|---|---|---|---|---|
| | Amount | Per Cent | Amount | Per Cent | Amount | Per Cent |
| TOTAL TAXES | $167,471 | 100.00 | $86,336 | 100.00 | $81,135 | 100.00 |
| Property | 81,076 | 48.41 | 1,539 | 1.78 | 79,537 | 98.03 |
| General | 80,775 | 48.23 | 1,238 | 1.43 | 79,537 | 98.03 |
| Municipalities | 79,537 | 47.49 | --- | --- | 79,537 | 98.03 |
| Wild Lands | 738 | .44 | 738 | .85 | --- | --- |
| Forestry District | 500 | .30 | 500 | .58 | --- | --- |
| Special | 301 | .18 | 301 | .35 | --- | --- |
| Bank Stock | 298 | .18 | 298 | .35 | --- | --- |
| Non-resident Motor Vehicle | 3 | .001 | 3 | .003 | --- | --- |
| Sales | 68,404 | 40.85 | 68,404 | 79.23 | --- | --- |
| General 3% Retail Sales | 24,482 | 14.62 | 24,482 | 28.36 | --- | --- |
| Motor Fuel | 22,241 | 13.28 | 22,241 | 25.76 | --- | --- |
| Beer | 2,033 | 1.21 | 2,033 | 2.35 | --- | --- |
| Liquor | 6,205 | 3.71 | 6,205 | 7.19 | --- | --- |
| Cigarettes | 6,188 | 3.70 | 6,188 | 7.17 | --- | --- |
| Insurance | 2,318 | 1.39 | 2,318 | 2.68 | --- | --- |
| Public Utilities | 3,959 | 2.36 | 3,959 | 4.59 | --- | --- |
| Pari-Mutuels | 978 | .58 | 978 | 1.13 | --- | --- |
| Privilege | 17,991 | 10.74 | 16,393 | 18.99 | 1,598 | 1.97 |
| Inheritance | 3,002 | 1.79 | 3,002 | 3.48 | --- | --- |
| Motor Vehicles | 8,954 | 5.35 | 8,954 | 10.37 | --- | --- |
| Hunting and Fishing | 1,756 | 1.05 | 1,756 | 2.03 | --- | --- |
| Sardine Development | 499 | .30 | 499 | .58 | --- | --- |
| Alcoholic Beverage Licenses | 477 | .28 | 477 | .55 | --- | --- |
| Corporations | 396 | .24 | 396 | .46 | --- | --- |
| Potato Transporters | 273 | .16 | 273 | .32 | --- | --- |
| Other Licenses and Fees | 2,007 | 1.20 | 1,033 | 1.20 | 974 | 1.20 |
| Polls | 627 | .37 | 3 | .003 | 624 | .77 |

[1] Local taxes estimated.

Source: Department of Finance and Administration, *State of Maine Financial Report, Fiscal Year Ending June* 30, 1959 (Augusta, Me.: 1959).

# APPENDIX VI

## STATE OF MAINE

### SOURCES OF STATE REVENUE BY FUNDS
### Fiscal Year 1959

(amounts in thousands of dollars)

| | Total Amount | General Fund Amount | General Fund Per Cent | Highway Fund Amount | Highway Fund Per Cent | Other Funds Amount | Other Funds Per Cent |
|---|---|---|---|---|---|---|---|
| TOTAL | $130,929 [a] | $68,016 | 100.00 | $55,008 | 100.00 | $9,631 | 100.00 |
| Non-tax Revenues | 44,593 [a] | 17,149 | 25.21 | 23,770 | 43.21 | 5,400 | 56.07 |
| From Federal Government | 37,473 | 12,955 | 19.04 | 20,453 | 37.18 | 4,065 | 42.21 |
| From cities, towns and counties | 2,869 | 1,026 | 1.51 | 1,747 | 3.18 | 96 | 1.00 |
| Service charges | 3,294 | 2,012 | 2.96 | 246 | .45 | 1,036 | 10.76 |
| Other revenues | 957 [a] | 739 | 1.09 | 378 | .69 | 142 | 1.47 |
| Transfers from other funds | [a] | 417 | .61 | 946 | 1.71 | 61 | .63 |
| Tax Revenues | 86,336 | 50,867 | 74.79 | 31,238 | 56.79 | 4,231 | 43.93 |
| Property | 1,539 | 738 | 1.09 | 3 | .01 | 798 | 8.28 |
| Wild Lands | 738 | 738 | 1.09 | ---- | ---- | ---- | ---- |
| Forestry District | 500 | ---- | ---- | ---- | ---- | 500 | 5.19 |
| Bank Stock | 298 | ---- | ---- | ---- | ---- | 298 | 3.09 |
| Non-resident Motor Vehicle | 3 | ---- | ---- | 3 | .01 | ---- | ---- |
| Sales | 68,404 | 45,913 | 67.50 | 22,151 | 40.26 | 340 | 3.53 |
| General 3% Retail Sales | 24,482 | 24,482 | 35.99 | ---- | ---- | ---- | ---- |
| Motor Fuel | 22,241 | ---- | ---- | 22,151 | 40.26 | 90 | .94 |
| Beer | 2,033 | 2,033 | 2.99 | ---- | ---- | ---- | ---- |
| Liquor | 6,205 | 6,063 | 8.91 | ---- | ---- | 142 | 1.47 |
| Cigarettes | 6,188 | 6,188 | 9.10 | ---- | ---- | ---- | ---- |
| Insurance | 2,318 | 2,210 | 3.25 | ---- | ---- | 108 | 1.12 |
| Public Utilities | 3,959 | 3,959 | 5.82 | ---- | ---- | ---- | ---- |
| Pari-mutuels | 978 | 978 | 1.44 | ---- | ---- | ---- | ---- |
| Privilege | 16,393 | 4,216 | 6.20 | 9,084 | 16.52 | 3,093 | 32.12 |
| Inheritance | 3,002 | 3,002 | 4.42 | ---- | ---- | ---- | ---- |
| Motor Vehicles | 8,954 | ---- | ---- | 8,954 | 16.28 | ---- | ---- |
| Hunting and Fishing | 1,756 | ---- | ---- | ---- | ---- | 1,756 | 18.23 |
| Sardine Development | 499 | ---- | ---- | ---- | ---- | 499 | 5.18 |
| Alcoholic Beverage Licenses | 477 | 477 | .70 | ---- | ---- | ---- | ---- |
| Corporations | 396 | 396 | .58 | ---- | ---- | ---- | ---- |
| Potato Transporters | 273 | ---- | ---- | ---- | ---- | 273 | 2.83 |
| Other Licenses and Fees | 1,033 | 341 | .50 | 130 | .24 | 562 | 5.85 |
| Polls | 3 | ---- | ---- | ---- | ---- | 3 | .03 |

[a] Net of interfund transfers.

Source: Department of Finance and Administration, *State of Maine Financial Report, Fiscal Year Ending June 30, 1959* (Augusta, Me.: 1959).