STATE OF MAINE

Summary of the

THIRD REPORT

to the

LEGISLATIVE
RESEARCH
COMMITTEE

THE STATE TAX STRUCTURE IN MAINE

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The Legislative Research Committee has authorized the preparation of this summary analysis of the THIRD REPORT, pending the printing of the complete document. It seemed important to place this material before the Legislature early in the session. Part I emphasizes the characteristics of the present state tax structure and the possibilities for additional revenues. Part II contains the complete statement pertaining to railroad taxation in Maine.

John F. Sly

January 6, 1961

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

PART I

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 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).

Additional Revenues

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 per cent to raise		$4,500,000
Proposal 2: Increase the retail sales tax by 1 per cent 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
		$4,000,000

(Or a combination of these proposals)

* * *

The implications of the income taxes were discussed in the First Report. It seems plain, moreover, that so far as revenues are concerned, Maine does not need a new broad base tax at this time.

* * *

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 rialroads. 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 5 3/4 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.

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

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

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

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

(amounts in thousands of dollars)

Tax Paid (1960)	Estimated tax under proposal		Tax savings under proposal	
	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 -- instrastate 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.

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PART I

THE STATE TAX STRUCTURE IN MAINE

State and Local Taxes

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

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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:

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	88,274	48.72	1,318	1.42	86,956	98.11
Municipalities	86,956	47.99	—	—	86,956	98.11
Wild Lands	754	.42	754	.81	—	—
Forestry District	564	.31	564	.61	—	—
Special	332	.18	332	.36	—	—
Bank Stock	329	.18	329	.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)

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 consumer's 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.

* * *

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	47,392[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).

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.

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 11 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 1961-62 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. While the surplus as estimated by the 1959 Legislature is $317,000 for the close of the fiscal year on June 30, 1961, this is purely a fictitious figure because the receipts have far exceeded estimates. While the estimate for the surplus at the close of the present biennium is not available at this time, it seems safe to say that $5 million is a conservative figure.

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 <u>first</u> 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 <u>second</u> 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 <u>third</u> 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 <u>fourth</u> 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 <u>fifth</u> 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 problem 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 <u>must not</u> 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. <u>First</u>, 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 consumer 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.

* * *

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.

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, dime store sales; 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, 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

Top 1/2 of [illegible]
Revenue [illegible]

TABLE 3

STATE OF MAINE

COMPARISON OF TAX REVENUES

The General Retail Sales and Use Tax

	Fiscal Year	Yield (000's)	Annual Change in %
Legal Citation: R.S. (1954) Ch. 17			
Date Established: July 1, 1951	1956-57	$ 17,122	6.95
Rate: 3% on retail sales price since July 1, 1957	1957-58	23,502	37.26
2% from July 1, 1951 to June 30, 1957	1958-59	24,482	4.17
Distribution:	1959-60	27,318	11.58
All to General Fund	1960-61 est.	28,000	2.50
Additional Yield in 1961-62 if rate were increased to 4% of retail sales price:	1961-62 est.	28,000	—
$9,000,000	1962-63 est.	28,500	1.79

Comparison with other New England State (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

Commparison with all other States (1960)

Highest: 4%	Lowest: 2%
Pennsylvania, Washington	13 States
	No Tax: 14 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).

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 %, and 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 8 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.

> Admissions: 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. If admissions were taxed in Maine, it is estimated that annual revenues of $450,000 would be realized.
>
> Motor fuel: At the present time Maine collects a sales tax only on gasoline not subject to the 7¢ 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. 9) gasoline revenues are dedicated to the Highway Fund, none of the 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

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	Amusements	Restaurant Meals	Public Utilities	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
AINE	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	4	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. <u>All-State Sales Tax Reporter</u>, looseleaf reporting service (Chicago, Ill.: 1960).

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 $1.5 million 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 5¢ 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 1¢ or ½¢ 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 (8¢ and 5¢ 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.

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 sales tax 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, volunteer fire departments, and to non-profit corporations engaged in welfare, charitable or philanthropic activities. 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

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		
		North Dakota		Kentucky		
Arizona	varies	Oklahoma		M A I N E		
New Mexico	varies	South Dakota		Maryland		
Mississippi	varies	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 comunities.

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

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 non-property 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 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	Portland, Cumberland	$610,000
Augusta, Kennebec	120,000	Presque Isle, Aroostook	85,000
Bangor, Penobscot	320,000	Rockland, Knox	65,000
Bath, Sagadahoc	45,000	Saco, York	20,000
Biddeford, York	100,000	Sanford, York	50,000
Brunswick, Cumberland	75,000	South Portland, Cumberland	65,000
Lewiston, Androscoggin	220,000	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 co-mingled 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 collections in Table 6.

The main sources 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

TABLE 6

STATE OF MAINE

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.

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.

	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	1,318	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	—		

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.

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 5¢ a pack since 1955 (Table 7). In 1959 two other New England states also taxed cigarettes at 5¢ a pack,

TABLE 7

STATE OF MAINE

COMPARISON OF TAX REVENUES

Selective Sales Tax

Cigarettes

	Fiscal Year	Yield (000's)	Annual Change in %
Legal Citation: R. S. (1954) Ch. 16, sec. 200-221			
Date Established: July 1, 1941	1956-57	$ 5,759	3.06
Rate: 5¢ per pack since July 1, 1955	1957-58	5,903	2.49
	1958-59	6,188	4.83
Distribution: All to General Fund	1959-60	6,551	5.87
	1960-61 est.	6,750	3.04
Additional Yield in 1961-62 if rate were increased 1¢ per pack: $1,300,000	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 1¢ of tax
Maine	5¢	$ 6,188	$ 6.52	$ 1.30
New Hampshire	3¢[a]	3,842	6.48	2.16
Vermont	5¢	2,496	6.70	1.34
Massachusetts	6¢	36,622	7.39	1.23
Rhode Island	5¢	5,705	6.52	1.30
Connecticut	3¢	10,277	4.25	1.42

Comparison with all other States (1960)

Highest: 8¢ per pack

Louisiana, Montana, Texas

Lowest: 1¢ per pack

Arizona, Missouri.

No Tax: Colorado, North Carolina, Oregon

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

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).

two taxed at 3¢ a pack, and the Massachusetts tax was 6¢. Maine collected $1.30 per capita per 1¢ 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 1¢ of tax that year. Since 1959, Vermont has raised its tax to 7¢, Rhode Island raised its tax to 6¢, and because of the rise in prices, the effective tax rate in New Hampshire is now 3½¢. Maine's cigarette tax 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 5¢ to 6¢ per pack. At present ten other states impose 6¢ rates, Vermont is the only state at 7¢, and three states use an 8¢ 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,

TABLE 8

STATE OF MAINE

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 24¢, 75¢, 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.

Rhode Island and Connecticut) for 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 brings its 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 16¢ per gallon was set 24 years ago. In recent years this tax has yielded about $2 million annually. For a few years prior to 1960 the revenues declined slightly, but they are expected to hold their own for the next few years. Maine's tax rate is higher than that of other New England states, except Vermont, where the rate is 20¢. It may be noted (Table 9) that collections per capita per 1¢ of tax are least in Maine and Vermont ($.16), the states where the rate is highest. The states with the lower tax rates collect more capita per 1¢ of tax. Again, the exception of New Hampshire must be noted -- it has the highest collections per capita per 1¢ of tax, even though its rates are far from the lowest in New England. The great differences in tax rates on beer

TABLE 9

STATE OF MAINE

COMPARISON OF TAX REVENUES

Selective Sales Tax

Beer

	Fiscal Year	Yield (000's)	Annual Change in %
Legal Citation: R.S. (1954) Ch. 61			
Date Established: June 30, 1933	1956-57	$ 2,109	-2.93
Rate: $4.96 per barrel or 16¢ per gallon since Feb. 25, 1937. Rate was 4¢ per gallon from June 30, 1933 - Feb. 24, 1937.	1957-58	2,040	-3.26
	1958-59	2,033	-.33
	1959-60	2,215	8.95
Distribution: All to General Fund	1960-61 est.	2,125	-4.06
	1961-62 est.	2,165	1.88
Additional Yield in 1961-62 if rate were increased 1¢ per gallon: $140,000	1962-63 est.	2,188	1.06

Comparison with other New England States (1959)

	Rate				
	Per gallon (in ¢)	Per barrel (in $)	Amount[1] (000's)	Per Capita	Per Capita per 1¢ 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.

throughout the country are indicated by the fact that the highest rate (South Carolina) is 64¢ per gallon, whereas the lowest rate (Wyoming and Missouri) is 2¢ 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 1¢ increase in the tax rate. 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 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 partially because it has a complicated rate structure. It is not a tax which can be

TABLE 10

STATE OF MAINE

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 Yeild 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	--	--	--

Comparison with all other States (1960)

Highest: New York
9%, Saratoga Track
10%, Long Island Tracks

Lowest: Nebraska, New Mexico
Nebraska, 2% after 1st million
New Mexico, 1/2%

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

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).

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 that 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 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 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

TABLE 11

STATE OF MAINE

COMPARISON OF TAX REVENUES

Inheritance Tax

	Fiscal Year	Yield (000's)	Annual Change in %
Legal Citation: R.S. (1954) Ch. 155, secs. 1-69			
Date Established: 1893	1956-57	$ 2,173	-2.68
Rate, since Sept. 12, 1959:	1957-58	2,465	13.45
Percentage of the value, at time of death, of the share which passes to each beneficiary	1958-59	3,002	21.78
Class A (closest kin) - from 2% to 6%, exemptions: $500 to $15,000	1959-60	3,229	7.57
Class B (collateral kin) - from 8% to 12%, exemptions: $500	1960-61 est.	2,850	-11.74
Class C (all others) - from 12% to 18%, exemptions: $500	1961-62 est.	2,850	—
	1962-63 est.	2,850	—

Distribution:
All to General Fund

Comparison with other New England States (1959)

	Rates	Amount (000's)	Per Capita
Maine	as above	$ 3,002	$ 3.16
New Hampshire	2% - 8 1/2%	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).

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 was 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 revenues from this tax is expected only from the telephone companies. Railroad yields, at

TABLE 12

STATE OF MAINE

COMPARISON OF TAX REVENUES

Selective Sales Tax

Insurance

Legal Citation: R.S. (1954) Ch. 16, secs. 137-148	Fiscal Year	Yield (000's)	Annual Change in %
Date Established: 1874	1956-57	$ 2,102	6.85
Rate: Percentage of net direct premiums	1957-58	2,192	4.27
Domestic companies, 1%; Foreign companies, 2%	1958-59	2,318	5.76
Fire, an additional 1/2%	1959-60	2,435	5.01
Distribution:	1960-61 est.	2,413	-.88
All to General Fund except licenses and filing fees to	1961-62 est.	2,653	9.95
Special Revenue Funds	1962-63 est.	2,763	4.15

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

Comparison with other New England States (1959)

	Rate	Amount (000's)	Per Capita	Per Capita per 1% of tax
Maine	1% - 2 1/2%	$ 2,240[a]	$ 2.36	$ 1.18
New Hampshire	2%	1,767	2.98	1.49
Vermont	2% - 2 3/4%	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

Comparison with all other States (1960)

Highest: (on some types of insurance)

On Domestic companies: 3 1/4%, Hawaii

On Foreign companies: 4 5/16%, Oklahoma

Lowest: (on some types of insurance)

On Domestic companies: 2/10%, Ohio
No tax: 5 states

On Foreign companies: 1/2%, New Mexico
1 3/4%, Delaware

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

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).

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.

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TABLE 13

STATE OF MAINE

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 3 1/4% to 5 1/4%
- Parlor car companies 9%
- Express companies 4%
- Telephone companies 1 1/4% 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).

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 percent 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 "road-way" -- were to be appraised at cash value, and a levy of 1 percent 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 1/4 of 1 percent; between $2,250 and $3,000, the rate was 1/2 of 1 percent; from there, the rate increased 1/4 of one percent for every increase in gross receipts of $750 a mile, but in no case was it to be more than 3¼ percent. The tax was in lieu of all other taxes on road beds, rolling stock, franchise and shares. The towns were to receive 1 percent 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 percent 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 prividing 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 percent, the tax rate was 3 1/2 percent of the gross; between 10 percent and 15 percent, the rate was 4 percent; 15 to 20 percent, 4 1/2 percent; 20 to 25 percent, 5 percent; and when net operating income exceeded 25 percent of gross, the rate was 5 1/2 percent. If a railroad did not operate over 50 miles of road, the maximum tax was 2 percent of gross. Narrow gauge lines were given special rates -- 1/2 of one percent of gross when the ratio of net to gross was in excess of 5 percent but less than 10 percent; if in excess of 10 percent, the tax was 1 percent; but if below 5 percent 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 percent of the total railroad mileage in the State. Table 1A (Jewett, p. 173) shows the effects of the "gross-net" tax on the Bangor and the Aroostook.

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

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

NOTE: Because the tax is figured on returns of the previous year, gross receipts, net railway operating income, and net income are for years one year prior to what they appear on the table.

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

TABLE 17B

MAINE CENTRAL RAILROAD -- TAXES AND INCOME

(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: Same as Table 17A.

to require the highest rate -- 5.5 percent. 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 percent, and the rate decreased from 5.5 (the maximum) to 4 percent.
>
> The tax on the Bangor and Aroostook remained constant (1928 to 1929) and the rate remained at 5.5 percent.

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 1/2 of one percent in its tax rate, while gross receipts declined 46 percent. Its tax fell from $659,000 to $402,000 -- 39 percent; and its net railway operating income fell from $2.7 million to $1.9 million -- 30 percent. 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 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 3 1/2 to 5 1/2 percent by 1/4 of one percent. This left the railroads with a minimum tax of 3 1/4 percent and a maximum tax of 5 1/4 percent. 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	3 1/4
In Excess of 10% but not exceeding 15% of the Gross Transportation Receipts	3 3/4
In Excess of 15% but not exceeding 20% of the Gross Transportation Receipts	4 1/4
In Excess of 20% but not exceeding 25% of the Gross Transportation Receipts	4 3/4
In Excess of 25% of the Gross Transportation Receipts	5 1/4

Narrow Gauge Railroads Wholly in State
(No longer operating in Maine)

When the Net Railway Operating Income Exceeds	Annual Tax As % of Receipts
5% but does not exceed 10% of the Gross Transportation Receipts	1/4
In Excess of 10% of the Gross Transportation Receipts	3/4
Not exceeding 5% of the Gross Transportation Receipts	No Tax

Railroad Companies Operating Not Over
Fifty Miles of Road

The tax shall not exceed 1 3/4 percent of gross transportation receipts. There are 9 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 percent 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 the 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 results, as reflected in the condition of the Maine Central, were 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

TABLE 18A

BANGOR AND AROOSTOOK RAILROAD — EXCISE TAXES AND INCOME
1953-1960

(In thousands of dollars)

Year	Gross Receipts	% Rate of Tax	Amount of Tax	Amount of Tax (1950 Rates)	Net Operating Income	Net Income	Tax as % of net Income	Federal Taxes	Tax as % of Federal Taxes
1953	$ 12.9	3.75	$ 484	$ 516	$ 1.8	$ 1,151	42.1	$ 709	72.8
1954	12.8	4.25	542	574	2.2	1,507	36.0	348	164.9
1955	12.0	4.25	511	541	2.3	1,407	36.3	(135)	—
1956	13.1	4.75	621	654	3.0	2,109	29.4	275	237.8
1957	15.5	4.75	736	775	3.6	2,627	28.0	156	496.8
1958	15.0	4.25	641	675	3.0	1,989	32.2	(82)	—
1959	13.8	4.25	584	615	2.6	1,432	40.8	(578)	—
1960	12.8	3.75	481	506	1.4	380	126.6	0	—

Source: Bangor and Aroostook Railroad Company Records.

NOTE: Because the excise tax is computed on the basis of prior year's performance, gross receipts, net operating income, net income and federal taxes are for one year prior to that which they appear in the table. Excise tax is that tax paid in the year as shown in the table.

Tax deferrals a/c accelerated amortization and depreciation reflected in federal taxes:

1952	232,398	1956	$1,098,672
1953	462,678	1957	962,156
1954	701,716	1958	783,374
1955	952,459	1959	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	Amount of Tax	Amount of Tax (1950 Rates)	Net Railway Operating Income	Net Income	Tax as % of net Income	(Income) Federal 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 tax is figured on returns of the previous year, Transportation Revenue*, Net Railway Operating Income, Federal Income Taxes, and Net Income (after Contingent Interest) are for years one year prior to what they appear on the table.

*Gross Transportation Receipts.

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 accomodations. The first-class services on the Boston and Maine, the State of Maine Express between New York and Portland was abandoned on October 29 of this year 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 of this year, 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 3 19) -- a loss of 61 percent between 1949 and 1958. In the 10-year period (1949-58), both intrastate passenger rates were increased 30 percent, 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 percent 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 feeely admitting that the railroads were in financial 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

TABLE 19

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

Total Passengers Carried

Road	Year 1949	1953	1957	1958	Per Cent of Change 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

Road	Year 1949	1953	1957	1958	Per Cent of Change 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).

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, we recommend that 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 busses 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 1/2 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% <u>increase</u> 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 over-riding 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.
	Ex Tidewater Coal rates have been reduced Bath to Pejepscot Mills (Pejepscot Paper Co.) 25¢ per net ton. Portland to Cumberland Mills, (S.D. Warren Co.) 25¢ per net ton.
CANNED GOODS	Many rates on Canned Goods to assist our 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 2¢ 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. Reduction.
Presque Isle, Maine)
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 would make two major choices: 1) to abandon the present tax structure? or 2) to 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 may fall much more rapidly than gross, because fixed charges are inflexible, and this may well increase the ratio of net to gross (and hence, a higher tax rate) when gross is actually being reduced. The alternative is forced economies and reduced services.

There is another question in regard to taxing gross receipts -- a long range question -- which may become important to the Maine economy. "This 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 <u>different</u> 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 5 3/4 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.

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 5 3/4 percent on total investment	\$3,680,000
5)	Difference between 1 and 3 -- credit to be added to net operating income	\$1,409,000
6)	Tax due current year	\$750,000
7)	Difference between 5 and 4 -- tax liability under the formula	\$-659,000
8)	One percent 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 percent 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 percent of operating receipts) below which there is no tax; and for short lines, a ceiling -- no tax to exceed 1 3/4 percent 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.

Be it enacted:

II. That Sec. 1, R.S., c. 16, Sec. 116, be amended as follows:

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 3½% 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 3-3/4% 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 4-3/4% 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 5-3/4% 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 5-3/4% 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 1-3/4% 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 1/4 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 3/4% 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, and its amount shall be determined as follows:

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	1 3/4 %	$ 3,887	$ 3,887	$ 2,221	$ --	$ 1,666
Belfast & Moosehead Lake	1 3/4	4,146	4,146	3,534	--	612
Bangor and Aroostook	3 3/4	479,384	255,671	127,836	223,713	351,548
Boston and Maine	3 1/4	66,541	40,978	20,489	25,563	46,052
Canadian National	3 1/4	79,872	49,152	24,576	30,720	55,296
Canadian Pacific	3 1/4	203,201	125,047	62,523	78,154	140,678
Maine Central	3 1/4	664,594	408,981	204,490	255,613	460,104
Portland Terminal Co.	1 3/4	4,090	4,090	2,337	--	1,753
Sanford and Eastern	1 3/4	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.

Both of these assumptions are under the proposed bill.

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.

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APPENDIX I

STATE OF MAINE
THE GENERAL FUND
July 1, 1941 to June 30, 1963

(amount 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							$ 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	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]		Expenditures[2]		Excess or	Cash
		Amount	% Change	Amount	% Change	Deficit	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 fron 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 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] Amount	Receipts[1] % Change	Expenditures[1] Amount	Expenditures[1] % Change	Excess or Deficit	Cash 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 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 Deficit	Cash Balance[2]
		Amount	% Change	Amount	% Change		
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 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	22,242	13.28	22,242	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	3,958	2.36	3,958	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).