State of Maine

ADVISORY COMMITTEE ON BUSINESS TAXATION

Report to

Governor Kenneth M. Curtis

SEPTEMBER 12, 1972

State of Maine

ADVISORY COMMITTEE ON BUSINESS TAXATION

Report to

Governor Kenneth M. Curtis

SEPTEMBER 12, 1972

PUBLISHED UNDER APPROPRIATION 1036.1

MAINE
ADVISORY COMMITTEE
ON BUSINESS TAXATION

JEROME F. GOLDBERG, CHAIRMAN
ONE MONUMENT SQUARE, PORTLAND, Me. 04111 Tel. area code 207
774-6291

September 12, 1972

Honorable Kenneth M. Curtis
Governor, State of Maine
Augusta, Maine 04330

Dear Governor Curtis:

I am pleased to submit herewith a summary report of the findings of the Advisory Committee on Business Taxation.

The Committee's recommendations call for adoption of a comprehensive business tax policy which, in its judgment, will promote balanced economic growth and equitable and efficient tax administration. Moreover, this policy will assist business to pay its fair share of state revenues. The Committee has also recommended changes in existing tax law provisions to implement this policy.

The Committee has devoted extensive time and effort in conducting its study. Committee members have given selflessly of themselves under very demanding schedules to develop proposals intended to serve the best interests of all Maine citizens.

The Committee members feel privileged to have been asked to work on this important and challenging task. We hope that our work will prove of value to you and the Legislature in your deliberations.

Respectfully yours,

Jerome F. Goldberg

Jerome F. Goldberg
Chairman

JFG/jca

Enclosure

TABLE OF CONTENTS

APPENDIX

EXHIBIT A

ADVISORY COMMITTEE ON BUSINESS TAXATION - BUSINESS TAX QUESTIONNAIRE

EXHIBIT B

REPRESENTATIVE SOURCE MATERIALS

ADVISORY COMMITTEE ON BUSINESS TAXATION
REPORT

September 12, 1972

The Advisory Committee on Business Taxation, which includes representatives from the Legislature, business, professions, organized labor and the public, pursuant to your charge, has reviewed all taxes imposed by the State of Maine and its political subdivisions which affect business activities carried on within the State. Having analyzed the effect of these taxes upon economic growth, the Committee now recommends adoption of a comprehensive business tax policy which in its judgment will promote balanced economic growth and equitable and efficient tax administration. Moreover, this policy will assist business to pay its fair share of state revenues. The Committee further recommends herein changes in existing tax law provisions which it considers necessary to implement this policy.

I. Proposed Business Tax Policy.

The Committee recommends that Maine's business tax system, that is those taxes, singularly and collectively, that directly or indirectly affect the carrying on of business activities within the State, be made to conform and to continue to conform to the following standards of adequacy, competitiveness, stability and flexibility, practicality and equity.

A. <u>Adequacy</u> - Maine's tax system must be adequate in that it must be capable of raising such revenues as are required by State and local government to provide necessary services. Taxes that affect the business sector must be capable of raising business' fair share.

B. <u>Competitiveness</u> - Any new or increased tax affecting business must be designed to maintain a favorable balance with competing states. Inasmuch as Maine is engaged in the highly competitive situation of attempting to attract new business and keep existing business, maintenance of a competitive tax climate is essential. We must not at any time get too far in advance of the level of taxes of states with which we are competing for new industry.

C. <u>Stability and Flexibility</u> - Maine's business tax system must produce a fairly constant revenue yield and at the same time be able to respond to growth and other changing conditions of the economy.

D. <u>Practicality</u> - Maine's business taxes should be acceptable to the business taxpayer.

E. Equity - Maine's business taxes must be equitable and in the view of the Committee should adhere to the following standards:

1. Maine's tax laws should not impose an oppressive over-all tax burden upon doing business within our State.

2. Maine's tax laws should not discriminate against Maine products or firms, or among competitive businesses in similar circumstances.

3. Maine's tax laws should promote an environment favorable for investment in Maine.

4. Maine's tax laws should recognize the impact and application of federal tax provisions.

5. Maine's tax laws should provide simple, just, and economical tax administration.

6. Maine's tax laws should simplify compliance by the taxpayers.

7. Maine's tax laws should have few statutory exemptions and be of general application.

8. Maine's tax laws should recognize the need for orderly economic growth throughout the State.

The Committee believes that this State's policy regarding business taxation, to be viable, must serve as a positive force in bolstering the economy of the State of Maine, encouraging commercial and industrial expansion and maintaining a high level of employment. At the same time, business taxes must be measured relative to the services which the State's governments provide to business and to its employees. It is too often forgotten that taxes are, in the last analysis, merely the price of governmental services. Economic progress requires the correct type and number of these services. Services rendered by government are generally equally as important as the taxes levied, especially if government spends its revenues efficiently and in such a way that businesses and individuals are assisted in their quest for economic advancement.

Maine, like many other states, finds itself periodically in a financial crisis due to its inelastic State and local tax structure. If Maine's revenue structure were adequate, it would expand automatically in proportion to expenditure requirements. If we assume that increases in demands for public services are related to increases in income levels (an accepted economic theory), we should try to create a tax system that is income elastic. A tax is income elastic if the natural growth in revenues from that tax is proportionately greater or equal to growth in income. If revenues increase less than proportionately to income, a tax is called income inelastic. If the elasticity coefficient is greater than 1.0, the tax is elastic, and if the elasticity coefficient is between 0 and 1.0, the tax is inelastic.

The main reason for the increasing expenditure requirements of State and local governments is the productivity inbalance between the public and private sectors. This inbalance is a result of the fact that the relatively capital intensive private sector tends to increase its physical output per unit of physical input at a greater rate than the relatively labor intensive public sector. This results in a decline of government's share of total output even with constant input costs.

Because of this fact of ever increasing governmental revenue requirements, a state must have a sufficiently elastic tax structure so that it will not be faced with constantly rising tax rates and adding new taxes. Periodic discretionary changes in the tax system is a piecemeal approach to revenue structure formation, and a process which in the long run is likely to be unplanned, irrational, and loaded with undesirable consequences. In 1967, prior to enactment of our State Income Tax, the Maine tax structure, with a weighted elasticity of 0.81, was one of the most inelastic in the nation. Unchanged, an inelastic tax structure would guarantee a fiscal crisis in Maine every few years.

A second major feature of our tax structure is its regressiveness. Its regressivity is the reason for our tax structure's inelasticity. Our tax system takes a lower percentage of business income the higher that income is. The dynamic part of growth in business profits is in the higher income brackets. Thus, the tax structure can not and does not expand as fast as the needs of the State. Prior to enacting corporate and personal income taxes, the Maine tax structure was the fifth most regressive tax structure in the United States. Although the income tax has slightly alleviated this over-all regressivity, our State tax structure is still essentially regressive.

Thus, the Committee recommends that any now pending and future legislative proposals affecting the business tax system must consider the need to increase the elasticity of our business taxes and reduce the regressivity of the over-all tax structure.

The benefits of economic growth accrue to all segments of the Maine economy. Every effort must be made to insure the maintenance of a favorable environment for the location of new business in Maine and the expansion of existing investment and job opportunities in Maine's industry, commerce and agriculture.

To enhance Maine's business climate, current tax revision must preclude the need for further frequent and periodic adjustments in the State's tax structure.

In other states, studies have shown that continued uncertainty as to future tax policy is more damaging to business decisions in matters of location and expansion within a state than any other single factor. A record of financial stability, settled tax policy and adequate provision for the support of public services is the best indication of a favorable tax climate. Thus, in the opinion of this Committee, it is imperative that Maine have a stable tax structure which achieves fiscal adequacy and tax equality and thereby creates an environment conducive to economic growth.

II. Recommended Changes in Existing Tax Law.

A. Corporate Income Tax: Maine adopted a corporate net income tax in 1969 which is levied at the rate of 4% of net income. Maine's rate of 4% is among the lowest in the nation.

The Maine corporate income tax conforms closely to the federal income tax insofar as definitions of income, allowable deductions, and filing dates and requirements are concerned; and contains withholding provisions with respect to salaries and wages similar to the federal requirements.

Recommendation: It is the view of the Committee that within Maine's business tax structure the income tax embodies the most equitable form of taxation. The Committee recommends, however, that if concurrent studies of our State's over-all tax structure determine a need for increased revenues from taxes, then any adjustment to the corporate income tax be accomplished through the introduction of a surtax upon corporate taxable income in excess of $25,000.00. This recommendation is consistent with existing federal tax policy and would produce increased tax revenues without increasing the burden of compliance. The Committee feels that a surtax could be used to replace revenue lost as a result of exempting machinery, apparatus and equipment used to produce tangible goods from the sales and use tax (a recommendation contained in this report). More important, however, is the fact that this recommendation is consistent with the Committee's objective to propose modifications to the business tax structure that will not only introduce elements compatible with the business tax policy previously set forth in this report, but that will also shield Maine's smaller businesses from increased tax burdens.

Recommendation: The Committee recommends establishment of a minimum corporate income tax. The Commonwealth of Massachusetts, for example, currently imposes a minimum tax of $114.00 upon all corporations filing State returns. A minimal amount paid by a corporation even during a loss year should not prove burdensome or inequitable. This amount will, however, provide recompense to the State for the costs of administration, etc. applicable to the processing of such returns.

B. Property Taxes: For all intents and purposes, the Maine business tax "system" consists of several hundred local property taxes imposed on real and personal property. Of the total taxes collected from Maine commercial and industrial businesses, the vast majority is accounted for by the local property tax. The remainder of business' share is made up essentially of selected consumer excises collected at the business rather than consumption level. The corporate net income tax, which yields about $8 million annually, can hardly be considered a significant component of the business tax "system". Thus, whatever, if any, adverse effects State-local taxes paid by Maine firms may entail, they must rest almost entirely with the deficiencies inherent in the local property tax.

In its application to business, the local property tax is necessarily discriminatory. Certain firms employ more real and tangible property relative to other productive factors than other firms. Some firms can reduce inventories to accommodate tax assessment calendars, and others can not. Add to these obvious shortcomings the facts that industrial and commercial real and personal properties are almost impossible to assess in any uniform fashion and that the levy represents a fixed cost that must be borne irrespective of the profitability of the firm or even its volume of activity, there is ample justification for restructuring the Maine business tax system. In short, it is not the <u>level</u> of business taxes in Maine that is irritating but the <u>structure</u>. To the extent that a more attractive business tax structure will contribute to an even more rapid economic growth rate, reliance must be placed on sources other than the property tax-sources that take into account the individual firm's capacity to contribute to the support of government.

Of the 495 municipalities, 92.3% have populations of 5,000 or less. It is impossible for most of these communities to have an adequate assessment staff on their own. There are approximately 1,500 assessors in the State. Of this number, only twenty-five to thirty work full time as assessors. The need for larger assessment districts is quite clear.

The need for better assessment administration is unquestioned and well documented in the Dunham report. However, this Committee feels that even if the property tax were perfectly administered, the financial problems of the municipalities would not be resolved. The property tax is relied upon too heavily to supply every municipality with an adequate source of revenue. The tax is regressive, and as tax rates increase it will, and already has, inhibit the economic growth of the State. It also seems unfair that a town with a large industrial plant within its boundaries can furnish an excellent educational system for its children without an undue burden to the home owner, and the community adjacent to it must tax the home owner an almost unreasonable amount to support a basic school system.

Recommendation: Due to the role of the property tax within the business tax structure, the Committee submits the following recommendations for change that it feels would make property taxation in Maine more compatible with the policies set forth herein:

1. Elimination of property tax exemptions applicable to any organization engaging in

substantial profit-making activities in competition with business taxpayers.

2. Eliminate part-time assessors. This can be accomplished only by the adoption of larger assessment districts. This recommendation will ultimately have to be reviewed in light of judicial determinations currently pending before the Supreme Court of the United States.

3. Provide adequate training for assessors.

4. Provide Central Computer Centers to facilitate the work of the assessors.

5. All industrial and public utility property should be assessed by the State Bureau of Taxation. Two benefits would result from this procedure. The individual assessment districts would not need to hire specialists in this field, and it would eliminate the granting of tax concessions and the pirating of commercial and industrial firms.

6. Establish a State Board Of Property Tax Appeals. This would provide an economical appeals process for the average taxpayer who now finds it impractical to appeal to the Courts.

7. Impose a gross earnings tax, in lieu of property taxes, on electric utilities, pipelines, and gas distribution systems. These

utilities are difficult to appraise. A gross receipt tax, handled by the State, would provide a more equitable return to the municipalities.

The Committee feels that in light of litigation currently pending before the United States Supreme Court, the entire area of real property taxation will undergo drastic changes. We feel, however, that although there may develop a constitutional requirement to change the nature of real property taxes, the fundamental basis for their imposition remains valid. That is that real property taxation provides a stable base upon which a realistic tax structure can function. Thus, should Maine be required to revise its real property tax structure, our Committee feels that a continued real property tax is a necessity. Our input from the business community reflects a general acceptance of real property taxes when they are equitable and impartially administered.

The trend in many states in recent years is to abolish, at least in part, the personal property tax. Of the $180,416,000 assessed in 1970 on property in the State, 17.5% or $31,573,000 was raised from the personal property tax. The gasoline, use fuel and the Motor Carrier tax yielded $36,733,998 in the fiscal year ending June 30, 1970. The income tax, individual and corporate, in the same period yielded $27,142,370.00. While it is wise for the State to consider the abolition of the personal property tax, it is evident that a major tax must be imposed to replace the revenue that would be lost by the municipalities. With so many states no longer taxing personal property, it will become increasingly difficult to attract industrial and wholesale concerns to the State of Maine. The tax is especially regressive in view of the fact that if properly administered a concern could conceivably pay the same amount in personal property taxes in a year in which there is no net income as it would in a year in which the business was highly successful.

Recommendation: It is the opinion of the Committee that the personal property tax as it relates to business inventories and is currently administered is inequitable and should be eliminated. The Committee realizes the need for these revenues at the local level and accordingly suggests that the State initiate a study to determine, through revenue sharing, how these lost revenues can effectively be returned to the municipalities.

C. Sales and Use Tax: The Sales and Use Tax is imposed at the rate of 5% of the sale price of all tangible personal property sold within the State for use or consumption, of rental charges for so-called transient living quarters, and of charges for telephone and telegraph service. There are a number of exclusions or exemptions.

In addition to the sales tax is a use tax. Basically the use tax is a tax upon items purchased outside the State for use in Maine. For example, since the sales tax applies only to sales made in Maine, the sales tax does not apply when a person buys an item in New Hampshire, but if he buys it for use in Maine, the use tax does apply when he brings it into this State. This use tax applies only to situations where there would have been a sales tax had the property been purchased in Maine.

Recommendation: The Committee recommends adoption of an exemption for sales of machinery, apparatus and equipment used in manufacturing tangible goods. The Committee believes that application of the sales and use tax to those items is a counterproductive element in a tax system that seeks to promote balanced economic growth. The Committee is concerned that this feature of the sales and use tax ultimately could contribute to a loss in employment and reduction of the tax base. Loss of sales and use tax revenues of approximately four million dollars per year caused by the introduction of this exemption could be offset by adjustments proposed herein to the corporate income tax.

D. Other Taxes: Maine has a number of taxes that are imposed specifically upon specialized business activities carried on within the State.

1. Insurance Taxes: Insurance companies incorporated in Maine are taxed at the rate of 1%, and other insurance companies at the rate of 2%, of the net amount of premiums collected on risks located within the State. Fire insurance companies are taxed an additional 1/2 of 1% for a so-called "fire investigation tax" the proceeds of which are used by the State Insurance Department for fire prevention and investigation work.

Recommendation: Inasmuch as nearly one-half the states in the United States openly discriminate taxwise in favor of their own companies and nearly all states have retaliatory taxes by which they raise tax rates on any company from a state which has higher tax rates, the Committee recommends further review with respect to insurance company taxation. The Legislature should investigate the complex issue of insurance taxation in order to assist in the abolition of these practices.

2. Bank Stock Tax: National banks and trust companies are taxed at the rate of 15 mills on the dollar of the value of their shares of common stock as of each April 1. In 1970-71, this produced approximately $659,000. This tax is assessed and collected by the State; but is paid back in its entirety to the municipalities in which the stock is owned or the bank is located. This tax is of interest as the sole example in Maine of a state-collected, municipally-distributed, tax. This tax is in place of a local property tax on the shares of stock of such banks.

Recommendation: The Committee recommends that a study of the taxation of banks and lending institutions be made after Congress acts on permanent provisions of law affecting national banks. The Committee feels that proposals at this time are premature.

3. "Industry" Taxes: Beginning with the potato tax in 1937, several taxes have been imposed at the request of specific industries for their own development and promotion. The potato tax, levied at the rate of 1.2 cents per hundredweight, produced $303,000 in 1970-71; the blueberry tax, at the rate of 2 1/4 mills per pound, produced $15,700 the same year; the fertilizer tax, at the rate of 10 cents per ton, $5,100; the sardine tax, levied at 25 cents per case, produced $233,000; the milk tax, levied at the rate of 5 cents per hundredweight, produced $300,000; the marine worm tax, at the rate of 5 cents per 100, produced $32,600; and the quahog tax at the rate of 5% of the landed value at present produced only $400.

Recommendation: The Committee recommends that the Legislature review these taxes to determine whether they are still relevent to their purpose and where possible, the Committee recommends they be eliminated.

E. Value-added Tax: Value-added taxation is widely used in Europe and in the past, in Michigan. In recent years there has been heightened interest in such taxes at the state and federal level, though none is in effect now. Generally, value-added taxation is levied on a very broad base--the entire output of a state or nation. In practice, the tax is imposed on business firms by taxing the difference between their receipts and the payments they make for materials, services and capital equipment.

Depending on treatment of payments for input, particularly investment expenditures, a value-added tax may take on theoretical similarities to a business net income tax or a consumer sales tax. However, the tax is neutral in its impact on corporate and non-corporate businesses, efficient and inefficient producers, labor-intensive and capital-intensive industries, and integrated and non-integrated firms. Because of the broad tax base, a low tax rate produces a large amount of revenue.

However, there are some disadvantages to a value-added tax. As a national tax it is likely to be passed completely to consumers in the form of price increases, and thus has considerable regressivity. As a state tax, on the other hand, it is difficult to shift on to consumers in other states in the price of Maine goods shipped out of State. Rather, Maine concerns would simply move to other states to escape this burden. A value-added tax is difficult to make non-regressive through selected exemptions. While it is a highly elastic tax, as is an income tax, it is not as progressive as an income tax. Within the framework of our existing federal and State laws a state imposed tax on value added is objectionably deficient when compared to the sales tax for example. Sales tax payments may be deducted from income for federal personal income tax purposes, but cost increases due to value-added taxes cannot be deducted under present federal regulations.

Recommendation: The Committee believes that a value-added tax must be viewed in context with the entire tax structure, and not as if it were the only tax to be imposed. A properly balanced structure of other taxes on business and individuals, as recommended in this report, can achieve most of the advantages of a value-added tax without its corresponding disadvantages. Thus under present circumstances, the Committee does not favor adoption of a value-added tax for Maine.

F. Business Tax Incentives: The Committee feels that for a business tax incentive to be viable, it must be measured against the same standard as any other component of business taxes; that is, the business tax policy proposed herein. Thus, a special tax incentive designed to attract new business to this State or to assist existing Maine business is not acceptable if the result is merely to shift the tax burden from one group to another. It has been demonstrated, however, both on State and local levels, that through the introduction of broad-based business tax incentives, i.e., incentives for pollution control and renovation of low income housing, a flexible tax system, from time to time, can be adjusted to promote overriding social and economic policies of vital concern to all within its taxing jurisdiction.

Recommendation: The Committee feels that the high rate of unemployment within our State presents an overriding economic condition requiring immediate action. We recommend, therefore, that a study now be undertaken to establish tax incentives for business, at all levels, designed to promote greater employment of Maine citizens. The Committee believes that tax incentives, if properly designed, can provide a positive influence in encouraging the creation of greater employment opportunities in Maine.

III. Business Tax Survey Results.

A significant portion of this study included analysis of business tax surveys mailed by the Committee to selected businesses throughout the State. (See Exhibit A.) These questionnaires were supplemented by personal interviews by Committee members with numerous businessmen and public officials. Of fundamental concern to the Committee was a determination as to whether Maine businessmen felt that the Maine business tax climate places Maine businesses at a competitive disadvantage, viz-a-viz businesses based in neighboring states. If such a climate exists or was believed to exist it could encourage existing domestic businesses to locate out of State and discourage new domestic industry from locating within the State. In addition, the Committee felt that the importance of State and local tax considerations to the location decision should be explored. The Committee is greatly indebted to Dr. Edgar A. Miller, State Economist, for his invaluable assistance in the preparation of the business tax survey. The following, in summary form, is our analysis of the responses.

A. DESIGN

1. Surveys were mailed to over 1,000 selected businesses throughout the State of Maine. Responses were received from nearly 15% of the sample group. (This exceeds the

normal anticipated return rate of 10% on mailed questionnaires.) Though a space for the respondent's name and firm name was included, a covering letter explained that this information was optional.

2. The survey included both structured and unstructured questions.

3. Of the firms responding, 37% identified themselves.

4. The following table indicates the industries represented in the sample responding.

INDUSTRY	% OF SAMPLE
Manufacturing	45%
Wholesale and retail trade	29%
Services	9%
Contract Construction	6%
Electric, Gas and Sanitary Services	6%
Agricultural, Forestry and Fishing	4%
Finance, Insurance and Real Estate	1%
Mining	0%

5. For an indication of the size of the firms responding we analyzed the number of their employees:

NUMBER OF EMPLOYEES *	% OF SAMPLE
Under 50	30%
50 - 100	30%
101 - 200	16%
201 - 500	9%
501 - 1000	6%
More than 1000	3%
Not Specified	4%

* Season - Listed at High

B. FINDINGS

1. A business tax structure that will not impede economic growth in Maine must strive to treat all businesses evenly and uniformly on the basis of established rules and regulations. Inequalities in tax treatment under the existing structure represent pervasive irritants which intensify reactions to state tax liabilities.

2. As it relates to specific tax measures, equity implies the equal treatment of equally situated individuals or business units within the framework of a specified tax base. Our respondents were asked to apply these equity standards to each major component of the Maine tax structure. The respondents were asked to

rate each of the six business taxes they face on a scale of 5 from very inequitable through very equitable. As the following table indicates, the corporate income tax was found to be far and away the most equitable tax and the inventory and stock employed in trade the least equitable. The income tax was considered equitable because it is based on the ability to pay. The inventory and stock employed in trade were rated inequitable because they are self-assessed and because, in the view of the respondents, they tend to retard expansion.

Tax	Very Equitable	Equitable	Indifferent	Inequitable	Very Inequitable
Maine Corporate Income Tax	21%	61%	8%	6%	2%
Local Real Estate Tax	1%	35%	13%	31%	17%
Local Manufacturers' Inventory Tax	0	8%	19%	24%	34%
Local Office and Store Fixtures Tax	0	27%	19%	20%	21%
Local Stock Employed in Trade Tax	0	12%	23%	21%	31%
Sales & Use Tax on New Machinery & Equipment	1%	38%	17%	23%	18%

3. There was great uniformity throughout the questionnaire on the equitability of the corporate income tax. The one area involving

the corporate income tax that produced strong diverse opinions was that of which method (flat or graduated) of taxing corporate income was more equitable. As noted above, the flat rate was slightly favored over the graduated. The major reasons given for preferring a flat rate were: more equitable, is not confiscatory or counter-productive and allows greater incentive for expansion. A few of the advocates of a flat rate felt that there should be a lower rate or some form of exemption for small businesses.

4. Many who favored a graduated tax indicated that they felt a graduated tax to be more responsive to the ability to pay and thus more equitable.

5. Some respondents suggested imposing a minimum corporate tax which would apply to all corporations doing business within the State with a view toward having a company make some contribution to state revenues even during loss years.

6. Some respondents suggested a differential in the corporate income tax rate to be paid by corporations at different income levels. On one hand it was suggested that the rationale supporting graduated rates in the individual

income tax does not necessarily apply to the corporate tax. On the other hand, it was argued that other states have graduated corporate rates and that a rate differential would be helpful to small businesses.

7. The respondents were nearly unanimous in the view that a tax on inventories is not a desirable revenue measure. It causes a shifting of inventories unrelated to business requirements. Our respondents felt that these taxes are especially inequitable. In relation to sales, businesses with low turnover pay more than those with fast turnover and the tax tends to rise at the very time that business is falling off. Many who responded argued that the personal property tax was inequitable on the grounds of valuation problems and noncompliance. A significant percentage believed that ultimately the personal property tax should be entirely eliminated.

8. The property tax was subject to considerable criticism on the ground that its incidence is unrelated to the taxpayer's income or ability to pay. Critics of the property tax pointed to the failure of the tax to keep up with expenditure requirements, with the result that frequent rate increases have been necessary and have reached proportions which many consider

too high. On the other hand, most felt that, with all of its limitations, the property tax should continue to play a vital role in the financing of local government in this State. The tax is a well established, productive and stable source of revenue and apart from issues of rate and valuation is generally accepted by Maine businessmen.

9. The following table summarizes the recommendations the respondents proposed when asked how they would restructure the State's business taxation system.

WAYS TO RESTRUCTURE BUSINESS TAX STRUCTURE

METHOD	% RECOMMENDING
Maintain or Increase Corporate Income Tax	30%
Eliminate or Moderate Inventory and Machinery & Equipment sales tax	28%
Eliminate or Moderate Real Estate Taxes	18%
Increase and Broaden Sales Tax	13%
Increase Personal Income Tax	11%
Decrease or do not Increase Sales Tax	8%
Establish Tax relief incentives for expansion	6%
Have Statewide assessment & administration of real estate taxes	4%
Increase luxury taxes on non-necessity items	4%

10. The difference of opinion on raising, lowering or maintaining the sales tax as noted above, is based on the fact that the proponents of increasing it believe that tourists bear the brunt of the sales tax. Those who favor lowering it or at least not allowing an increase express concern that it is inequitable as regards the poor and the elderly.

11. It is interesting to note that despite the fact that the business tax survey dealt only with business taxation, many of the respondents felt that personal income as well as corporate income taxes should be increased.

12. The following table summarizes the tax factors which the businesses surveyed noted have altered their decisions regarding expansion, location and development of their businesses. It should be emphasized that 46% of the businesses stated that their plans have not yet been affected by taxes.

FACTORS AFFECTING EXPANSION, LOCATION AND DEVELOPMENT

TAX	% AFFECTED
Real Estate	15%
Personal Property	10%
Inventory	4%
Sales & Use Tax on New Equipment	3%

13. Whereas the last table indicated which taxes had affected expansion, the following table summarizes the changes which the respondents felt would encourage them to expand. Only 18% barred the door on expansion regardless of changes in taxation.

CHANGES WHICH WOULD ENCOURAGE INCREASE IN INVESTMENT IN LAND AND EQUIPMENT IN MAINE

CHANGES	% RECOMMENDING
Lowered or Restrictive Limit on Real Estate Taxes	18%
Lowering of Personal Property and Sales and Use Tax on new Equipment	17%
Incentives for Investment	7%
State Financing for new plants	3%

14. The Committee was curious to learn if businessmen felt they had to raise the wages of their employees due to the rising taxes faced by these employees. As the following table indicates, they basically do not with the possible exception of the real estate tax.

TAXES WHICH MIGHT AFFECT EMPLOYEES' WAGES

Tax	Considerable Affect	Some Affect	No Effect
Real Estate Tax	14%	37%	38%
Personal Income Tax	9%	30%	49%
Sales & Use Tax	7%	24%	56%
Personal Property Tax	7%	21%	60%

15. Another area of exploration was how do taxes weigh as compared to other factors, when the respondents consider expansion of their business activities in Maine. As the following table indicates, almost one-third of the respondents considered business taxes of great influence.

FACTORS INFLUENCING EXPANSION IN MAINE

FACTOR	GREAT INFLUENCE	SOME INFLUENCE	NO INFLUENCE
Availability of Labor	41%	39%	12%
Business Taxes	30%	46%	14%
Wage Levels	30%	45%	14%
Environment	29%	31%	28%
Availability of Financing	28%	28%	34%
Proximity to Market Place	25%	32%	30%
Transportation	25%	40%	22%
Proximity to Raw Material	21%	22%	44%
Personal Taxes	15%	38%	37%

16. Almost 60% of the respondents said they were not knowledgeable regarding business taxation in other states. 13% felt business taxes in Maine were comparable to those in other states where they were or could do business, while 9% believed they compared favorably and 8% felt they compared unfavorably.

C. SUMMARY OF BUSINESS TAX SURVEY

1. 82% of the businesses who responded to the Committee's survey consider the Maine Corporate tax to be equitable.

2. The local manufacturer's inventory and the local stock employed in trade taxes were considered inequitable taxes by more than 50% of the respondents.

3. More than 40% considered local real estate, local office and store fixtures and sales and use taxes inequitable.

4. 40% of the respondents prefer a flat rate corporate income tax while 35% would opt for a graduated tax. The remaining 25% were undecided.

5. Almost a third of the respondents feel that business taxes would greatly influence their decisions on expanding their business activities in the State of Maine.

6. However, 46% noted that state and local taxes employed in Maine have not yet affected their decisions with regard to expansion, location and development of their business.

7. Real estate taxes have influenced 15% of the respondents in where they have located or have hampered further expansion; 10% noted that

personal property taxes have had a similar negative affect.

8. When asked how they would restructure the business tax system to make it the fairest system possible, 30% felt they would keep and/or increase the corporate income tax; 28% would moderate or eliminate the manufacturer's inventory, stock employed in trade taxes and the sales and use tax on new machinery and equipment; and 18% would eliminate or moderate real estate taxes.

9. 13% of the respondents felt that the sales tax could be broadened and increased.

10. 18% of the businesses noted that they would increase their investment in land and equipment if real estate taxes were lowered; 17% said they would do so if the personal property taxes on machinery and inventory were lowered.

D. COMMITTEE COMMENT ON BUSINESS TAX SURVEY

It is exceedingly difficult to reach any over-all generalization with respect to the burden of business taxes in terms of the cumulative affect of all the state and local tax that a business pays. The tax structure affects different kinds of business differently and the over-all burden differs depending upon location within the State. In addition, there is the problem of whether to consider only those taxes directly on business or also other taxes on individuals such as a personal income tax which may indirectly affect business through wage demands and other costs.

Many studies have been conducted in recent years to determine the affect of state and local taxes upon business decisions. One study attempted to demonstrate a correlation between tax levels and industrial growth, but was unsuccessful. Another study pointed out that since other cost differentials exceed tax differentials, tax considerations are of little importance in location decisions. Other studies were based on the opinions of executives as to factors that influenced location decisions. While most of these studies found taxes to be a relatively unimportant factor, some ranked taxes high on a list of major factors.

Studies of hypothetical firms have revealed wide differences in the tax bill for the same company at different locations. These findings bely the fact that tax considerations can be a significant factor in industrial location and hence in economic growth.

On balance, the majority of studies have concluded that tax competition among locations is not such a dominant factor in industrial development that it should be given primary consideration in determining tax policy. On the other hand, there is no conclusive evidence that states may ignore interstate tax differentials on business without any resulting adverse impact on industrial development. A tax system which ignores such differentials could have a deleterious effect on the economic growth of this State. Maine, therefore, in formulating its business tax policy, must consider the tax burden on business as one of the important variables in reaching decisions. This does not imply that Maine should drastically reduce business taxation. Such a program would not lead to economic progress but would be only self-defeating. The point is to design and implement reasonable policies which do not impede and which may provide some incentive for economic progress. Through the vehicle of the business tax survey, our Committee feels that it has helped to identify those areas within our business tax structure that most greatly concern the business community.

IV. Committee Procedure.

A. In your charge, you asked that the Committee review all taxes imposed by the State of Maine and its political subdivisions which affect business activities carred on within the State. These taxes are as follows:

1. Local property taxes, personal, real estate, and business inventory which are assessed and collected by the Towns and Cities in which properties are located.

2. Retail sales tax which is imposed at the rate of 5% of the sale price of all tangible personal property, with certain exceptions, sold within the State for use or consumption. A use tax at the same rate is imposed upon items purchased outside the State for use in Maine.

3. Employer's payroll tax whereby an employer pays contributions to an unemployment compensation fund based upon wages paid by him during each calendar year.

4. Gasoline and related motor fuel taxes.

5. Corporate income tax which is levied at a flat rate of 4% of the net income, which is the total taxable income of the corporation under the Federal Income Tax Law.

6. Special business taxes including bank stock, insurance and public utilities and industry taxes.

These taxes were reviewed by two subcommittees of the Advisory Committee on Business Taxation. The Tax Policy Subcommittee and The Statutory Review Subcommittee were each assigned responsibilities pertaining to the evaluation of existing taxes. Individual members of each committee prepared analyses of specific taxes outlining their respective strengths and weaknesses within the framework of our State's over-all business tax structure.

In addition, a separate subcommittee was established to analyze other state tax structures with a view toward making an evaluation of our business tax structure on a comparative basis.

The Committee recognized from the outset that concurrent reviews of state tax structures were taking place in other states on an almost continuous basis. With this in mind, one subcommittee was charged with the responsibility of reviewing the reports issued by similar committees investigating other state tax structures. We corresponded with each of the other forty-nine states and requested that copies of all recent reports be forwarded to us. The response was most cooperative and as a result we were able to review numerous such reports. Each member of the Advisory Committee was given a report from another state to review in depth. Each then submitted a detailed analysis of the assigned report for further review focusing upon those areas that were specifically relevant to our study. I might note that most state studies are not limited to business taxation and accordingly in our review of other state tax studies we were required to consider a focus broader than the scope of our review. This, however, afforded the Committee a better understanding of the inter-relationship of business taxes to the over-all tax structure.

In addition to the review of other state tax reports, the Chairman of the Committee met personally with other state tax representatives to more fully explore material contained in certain of these reports.

B. The second facet of your charge was to analyze the effect of business taxes upon economic growth. In order to accomplish this objective, our Committee went directly to the business community to determine to what extent they felt these taxes stimulated or inhibited their economic growth. The Committee felt that this approach would produce conclusions founded upon practicality and not determined in the abstract. The Committee had an opportunity to review first hand its conclusion that taxes as a factor, though important, are not the major consideration in stimulating or retarding economic growth. The Committee further felt that where so many states had attempted to define in theoretical terms the impact of buiness taxes upon economic growth that by going directly to the business community it could make a new contribution in this area which in fact should prove more useful in developing meaningful legislative proposals. Thus, we designed a business tax survey for circulation among representative businessmen throughout the State.

C. The recommendations of the Committee regarding tax policy and provisions in the tax law to be changed are set forth in Sections I and II hereof.

During the course of this study, the Committee has been greatly impressed by the concern of Maine businessmen for general public welfare in reviewing our business tax structure. The Committee strongly urges that the conclusions contained in this report based upon responses to our survey, from personal contact with many businessmen throughout the State and formulated by the Committee, be given the most careful consideration by those who will now propose legislative adjustments. We have sought in this report to identify for you those areas that the Committee felt were of vital importance to the business community in formulating a responsible and responsive business tax policy for the State of Maine.

In keeping with our desire to assist in the complete evaluation of our present State tax structure we shall make available all of our information to those other committees now charged with the review of our entire tax structure.

In this way, it is our hope that other committees can better evaluate business taxation as a part of our total tax structure with a clear understanding of the concerns and comments of the business community. No specific citations to research sources have been included in this summary report. Instead, there is attached hereto, as Exhibit B, a general Summary of Sources utilized by the Committee.

The members of the Committee have appreciated this opportunity to participate in the review of business taxation in the State of Maine. We feel strongly that the recommendations stated in this report are in the best interest of both the business community and all Maine taxpayers. We strongly urge that those committees charged with evaluating our over-all tax structure consider our recommendations and urge that their proposals be framed to embody the results of this study. Through this report there now exists a clear expression of the concerns and recommendations of the business community. Many interested and concerned taxpayers have devoted substantial amounts of time and energy toward making this report available. The conclusions contained in this report, if heeded, can provide a firm base for meaningful and productive tax reform.

EXHIBIT A

ADVISORY COMMITTEE ON BUSINESS TAXATION
BUSINESS TAX QUESTIONNAIRE

1.A. Accepting the premise that the business community must bear its fair share of the expense of government, please rate the following Maine taxes by placing a check mark in the appropriate space indicating your evaluation of the equitability of each.

Maine Tax	Very Inequitable	Inequitable	Indifferent	Equitable	Very Equitable
1 Maine corporate income tax	1____	2____	3____	4____	5____
2 Local real estate tax	1____	2____	3____	4____	5____
3 Local manufacturers' inventory tax	1____	2____	3____	4____	5____
4 Local office and store fixtures tax	1____	2____	3____	4____	5____
5 Local stock employed in trade tax	1____	2____	3____	4____	5____
6 Sales and use tax on new machinery and equipment	1____	2____	3____	4____	5____

B. If you rated any tax Inequitable or Very Inequitable, please explain why.

2. If you could redesign the total state and local tax system so as to provide money for government services in the fairest manner possible, which taxes, if any, would you eliminate, add, or change? Why?

3, Our Committee wants to measure the relationship of State and local taxes to productivity to determine to what extent each such tax remains responsive to economic growth. To help us analyze the Maine tax system and its impact on different types of business enterprises would you please complete this table giving figures for your busines in nearest thousands of dollars.

	INFORMATION CATEGORY	FISCAL YEAR 1967	FISCAL YEAR 1970
1	Maine sales or revenues (Maine facilities)	__,000.	__,000.
2	Federal income taxes	__,000.	__,000.
3	Maine corporate income taxes	__,000.	__,000.
4	Corporate income taxes paid to other states	__,000.	__,000.
5	Maine local real estate taxes	__,000.	__,000.
6	Maine local manufacturers' inventory taxes (if applicable)	__,000.	__,000.
7	Maine local office and store fixtures taxes (if applicable)	__,000.	__,000.
8	Maine local stock employed in trade taxes (if applicable)	__,000.	__,000.
9	Maine sales and use taxes on new machinery and equipment	__,000.	__,000.
10	Total Maine Payroll	__,000.	__,000.

4. If total revenues from Maine corporate income tax were to remain at the current level, would you prefer a graduated corporate income tax rate, or a flat rate (fixed percentage). Why?

5. To what extent have any of the following taxes which your employees must pay required you to raise wages of your employees sufficiently to be a detriment to your doing business in the State of Maine? Please rate the effect of each by placing a check mark in the appropriate space.

Tax	No Effect	Some Effect	Considerable Effect
1 Personal income tax	1____	2____	3____
2 Real Estate Tax	1____	2____	3____
3 Personal Property tax	1____	2____	3____
4 Sales and Use Tax	1____	2____	3____

6. Which of the following factors would favorably influence you most in terms of expanding your business activities in the State of Maine?

Factors	No Influence	Some Influence	Great Influence
1 Availability of labor	1____	2____	3____
2 Wage level	1____	2____	3____
3 Personal taxes	1____	2____	3____
4 Business taxes	1____	2____	3____
5 Proximity to market-place	1____	2____	3____
6 Transportation	1____	2____	3____
7 Proximity to raw materials	1____	2____	3____
8 Environment	1____	2____	3____
9 Availability of Financing	1____	2____	3____

Please explain:

7. How do business taxes imposed in the State of Maine compare with those in other states where you are also doing business or could do business?

8. Have any of the state and local taxes presently imposed in Maine altered or in any way affected your decision with regard to expansion, location and development of your business? If so, which taxes and why?

9. What changes in the tax system, if any, would lead you to increase your investment in land and equipment in Maine?

10.A. Would you please indicate the approximate number of your employees in the State of Maine. ______________

B. Standard Industrial Classification Code Number: ______________

(OPTIONAL)

Name ______________________________

Position ______________________________

Company ______________________________

EXHIBIT B

REPRESENTATIVE SOURCE MATERIALS

State-Local Finances and Suggested Legislation--1971 Edition, Advisory Commission on Intergovernmental Relations, Washington, D.C.

Financing State and Local Governments, James A. Maxwell, The Brookings Institute.

Biennial Report of the Bureau of Taxation, 1969 and 1970, State of Maine.

State and Local Finances, Significant Features, 1967 to 1970, Advisory Commission on Intergovernmental Relations, Washington, D.C.

Handbook of State and Local Government Finance, Tax Foundation, Incorporated, New York, New York.

A Study of Property Tax Administration in the State of Maine, Paul C. Dunham.

Measuring the Fiscal Capacity and Effort of State and Local Areas Information Report, Advisory Commission on Intergovernmental Relations, Washington, D.C.

The Impact of State and Local Fiscal Policies on Redevelopment Areas in the Northeast, James W. Wightman, Research Report to the Federal Reserve Bank of Boston.

State and Local Taxation of Banks--Report of a study under Public Law 91-156, Board of Governors of the Federal Reserve System.

Multistate Tax Commission--Annual Reports.

New Jersey Tax Policy Committee comments on value-added tax.

Gregory Johnson, Governmental Assistant to Governor Reubin O'D. Askew, Florida, for his economic analysis of the impact of elasticity and regressivity in evaluating the effectiveness of a state tax structure.

Report of the Citizens Task Force on Municipal and State Revenues, November, 1968.

State of Maine, Bureau of Taxation.

Tax studies from the following states were reviewed by the Committee:

Alabama
Arizona
California
Colorado
Connecticut
Delaware
Florida
Georgia
Hawaii
Indiana
Iowa
Kentucky
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nevada
New Jersey
New Mexico
New York
North Dakota
Ohio
Oregon
Rhode Island
South Carolina
Tennessee
Texas
Utah
Vermont
Virginia
Washington
Wyoming