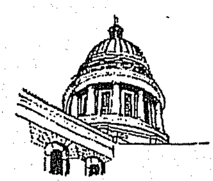
# JOINT STANDING COMMITTEE
# ON
# TAXATION

**LD 499**

BIENNIAL BUDGET

2008 - 2009



| | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| **Department Summary - All Funds** | | | | | |
| **Positions - LEGISLATIVE COUNT** | | **0.500** | **0.500** | | |
| **Personal Services** | | **28,290** | **28,902** | **10,000** | **10,000** |
| **All Other** | | **102,182** | **86,429** | **86,429** | **86,429** |
| | **Total** | **130,472** | **115,331** | **96,429** | **96,429** |
| **Department Summary - GENERAL FUND** | | | | | |
| Positions - LEGISLATIVE COUNT | | 0.500 | 0.500 | | |
| Personal Services | | 28,290 | 28,902 | 10,000 | 10,000 |
| All Other | | 102,182 | 86,429 | 86,429 | 86,429 |
| | Total | 130,472 | 115,331 | 96,429 | 96,429 |



13-1

**PROPERTY TAX REVIEW - STATE BOARD OF 0357**

**What the Budget purchases:**

As an appellate body, the State Board of Property Tax Review hears appeals of cases involving property valuation, tax exempt status decisions, land classification decisions (Tree Growth; Farm and Open Space), municipal valuations established by the Property Tax Division of Maine Revenue Services, mine site valuations and homestead exemptions.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 0.500 | 0.500 | 0.500 | 0.500 |
| Personal Services | 28,290 | 28,902 | 28,989 | 30,118 |
| All Other | 102,182 | 86,429 | 86,429 | 86,429 |
| Total | 130,472 | 115,331 | 115,418 | 116,547 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Eliminates one part-time Office Associate II position. | | |
| **GENERAL FUND** | | |
| Positions - LEGISLATIVE COUNT | -0.500 | -0.500 |
| Personal Services | (18,989) | (20,118) |
| Total | (18,989) | (20,118) |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 0.500 | 0.500 | | |
| Personal Services | 28,290 | 28,902 | 10,000 | 10,000 |
| All Other | 102,182 | 86,429 | 86,429 | 86,429 |
| Total | 130,472 | 115,331 | 96,429 | 96,429 |

## STATE BOARD OF PROPERTY TAX REVIEW

### 0357 Property Tax Review - State Board of

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $115,418 | $116,547 |

**Justification:**

The Board has been established to hear and determine tax abatement appeals arising under 1) the tree tax law (36 MRSA 571 et seq.), 2) the farm and open space law (35 MRSA 1101 et seq.) and 3) as provided in 36 MRSA 272, 843, & 2865.

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**Initiative:**

Eliminates one part-time Office Associate II position.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $(18,989) | $(20,118) |

**Justification:**

The duties for this program will be absorbed by existing staff in the Department of Administrative and Financial Services.

## PART MM

**Sec. MM-118. Property tax reduction.** Each school administrative unit must provide assessment reductions to each member municipality that will result in property tax reduction for the unit's member taxpayers through one or more of the following: **1. Increase.** The increase provided pursuant to Part C of this Act in state general purpose aid for local schools; **2. Savings.** Savings from the regionalization of school administrative units beginning in fiscal year 2008-09; and **3. Other.** Other efficiencies chosen by school administrative units. For each school administrative unit, the Commissioner of Education and the Commissioner of Administrative and Financial Services shall establish and report an assessment reduction target that will result in an amount equal to at least 90% of the increase provided in Part C of this Act in general purpose aid for local schools resulting in property tax reduction. Each school administrative unit must report annually to the Department of Education, in a format provided by the department that incorporates the target established above, the unit's assessment reductions and that each member municipality has provided to its taxpayers the property tax reduction resulting from the assessment reductions. If a school administrative unit's targeted assessment reductions or any member municipality property tax reductions are not reported or do not occur, the Commissioner of Education and the Commissioner of Administrative and Financial Services shall develop a mechanism to guarantee that the full amount of property tax reduction available to the member municipality taxpayers under subsections 1 to 3 occurs.

## SUMMARY

Section MM-118 makes available property tax reductions equivalent to 90% of the state share of education funding provided in this budget and mandates that these property tax reductions occur.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Department Summary - All Funds** | | | | |
| Positions - LEGISLATIVE COUNT | 1425.000 | 1427.000 | 1407.000 | 1407.000 |
| Positions - FTE COUNT | 1.600 | 1.600 | 1.144 | 1.144 |
| Personal Services | 71,010,610 | 96,677,464 | 99,196,699 | 101,025,933 |
| All Other | 199,887,037 | 200,792,026 | 238,832,411 | 246,588,000 |
| Capital Expenditures | 260,200 | 633,913 | 17,659,337 | 13,628,114 |
| Unallocated | (431,500) | (7,702,616) | | |
| Total | 270,726,347 | 290,400,787 | 355,688,447 | 361,242,047 |
| **Department Summary - GENERAL FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 514.500 | 514.500 | 498.000 | 498.000 |
| Positions - FTE COUNT | 0.769 | 0.769 | 0.769 | 0.769 |
| Personal Services | 33,009,683 | 29,394,690 | 31,269,235 | 31,374,193 |
| All Other | 70,533,654 | 78,256,507 | 89,669,161 | 94,433,802 |
| Capital Expenditures | 260,200 | 268,000 | | |
| Unallocated | | (6,380,116) | | |
| Total | 103,803,537 | 101,539,081 | 120,938,396 | 125,807,995 |
| **Department Summary - HIGHWAY FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 23.000 | 23.000 | 25.000 | 25.000 |
| Personal Services | 1,081,153 | 1,098,196 | 1,515,642 | 1,359,184 |
| All Other | 1,914,066 | 1,217,205 | 1,863,242 | 1,872,328 |
| Total | 2,995,219 | 2,315,401 | 3,378,884 | 3,231,512 |
| **Department Summary - FEDERAL EXPENDITURES FUND** | | | | |
| Personal Services | 101,180 | 108,220 | | |
| All Other | 25,450 | (396,236) | 523,264 | 523,264 |
| Total | 126,630 | (288,016) | 523,264 | 523,264 |
| **Department Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| Positions - LEGISLATIVE COUNT | 2.500 | 2.500 | 2.500 | 2.500 |
| Personal Services | 1,043,002 | 262,858 | 192,375 | 200,560 |
| All Other | 18,171,663 | 18,828,656 | 19,524,747 | 20,218,199 |
| Capital Expenditures | | 365,913 | 5,000,000 | 5,000,000 |
| Unallocated | (431,500) | (1,322,500) | | |
| Total | 18,783,165 | 18,134,927 | 24,717,122 | 25,418,759 |
| **Department Summary - FUND FOR HEALTHY MAINE** | | | | |
| All Other | | (8,391,658) | | |
| Total | 0 | (8,391,658) | 0 | 0 |
| **Department Summary - FINANCIAL AND PERSONNEL SERVICES FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 276.000 | 277.000 | 270.000 | 270.000 |
| Personal Services | 8,748,475 | 17,754,380 | 17,392,280 | 17,949,361 |
| All Other | 1,558,493 | 2,614,020 | 1,913,269 | 1,895,253 |
| Total | 10,306,968 | 20,368,400 | 19,305,549 | 19,844,614 |
| **Department Summary - POSTAL, PRINTING & SUPPLY FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 51.000 | 51.000 | 50.000 | 50.000 |
| Positions - FTE COUNT | 0.375 | 0.375 | 0.375 | 0.375 |
| Personal Services | 2,590,147 | 2,653,368 | 2,710,931 | 2,800,634 |
| All Other | 1,529,327 | 1,579,933 | 1,579,933 | 1,579,933 |
| Total | 4,119,474 | 4,233,301 | 4,290,864 | 4,380,567 |
| **Department Summary - OFFICE OF INFORMATION SERVICES FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 481.000 | 481.000 | 484.500 | 484.500 |
| Positions - FTE COUNT | 0.456 | 0.456 | | |
| Personal Services | 19,357,868 | 40,090,613 | 40,655,930 | 41,748,086 |
| All Other | 7,638,432 | 7,641,513 | 16,762,839 | 16,762,880 |

| | | | | |
|---|---|---|---|---|
| **Department Summary - OFFICE OF INFORMATION SERVICES FUND** | | | | |
| Capital Expenditures | | | 12,659,337 | 8,628,114 |
| Total | 26,996,300 | 47,732,126 | 70,078,106 | 67,139,080 |
| **Department Summary - RISK MANAGEMENT FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 5.000 | 5.000 | 5.000 | 5.000 |
| Personal Services | 360,412 | 374,422 | 370,986 | 380,728 |
| All Other | 247,729 | 233,719 | 3,515,976 | 3,515,976 |
| Total | 608,141 | 608,141 | 3,886,962 | 3,896,704 |
| **Department Summary - WORKERS' COMPENSATION MANAGEMENT FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 12.000 | 12.000 | 13.000 | 13.000 |
| Personal Services | 1,240,610 | 1,272,545 | 1,365,019 | 1,392,231 |
| All Other | 18,104,565 | 18,104,565 | 18,111,530 | 18,112,182 |
| Total | 19,345,175 | 19,377,110 | 19,476,549 | 19,504,413 |
| **Department Summary - CENTRAL MOTOR POOL** | | | | |
| Positions - LEGISLATIVE COUNT | 15.000 | 15.000 | 15.000 | 15.000 |
| Personal Services | 792,788 | 830,536 | 847,864 | 874,653 |
| All Other | 4,561,939 | 4,592,377 | 6,015,188 | 6,095,627 |
| Total | 5,354,727 | 5,422,913 | 6,863,052 | 6,970,280 |
| **Department Summary - REAL PROPERTY LEASE INTERNAL SERVICE FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 3.000 | 3.000 | 3.000 | 3.000 |
| Personal Services | 196,748 | 203,662 | 226,057 | 231,116 |
| All Other | 20,493,008 | 20,486,094 | 23,136,094 | 23,619,094 |
| Total | 20,689,756 | 20,689,756 | 23,362,151 | 23,850,210 |
| **Department Summary - BUREAU OF REVENUE SERVICES FUND** | | | | |
| All Other | 625,000 | 150,000 | 150,000 | 150,000 |
| Total | 625,000 | 150,000 | 150,000 | 150,000 |
| **Department Summary - RETIREE HEALTH INSURANCE FUND** | | | | |
| All Other | 48,400,235 | 48,400,235 | 48,400,235 | 48,400,235 |
| Total | 48,400,235 | 48,400,235 | 48,400,235 | 48,400,235 |
| **Department Summary - ACCIDENT, SICKNESS & HEALTH INSURANCE INTERNAL SERVICE FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 14.000 | 14.000 | 14.000 | 14.000 |
| Personal Services | 809,775 | 851,074 | 864,329 | 889,351 |
| All Other | 777,665 | 741,289 | 922,483 | 953,473 |
| Total | 1,587,440 | 1,592,363 | 1,786,812 | 1,842,824 |
| **Department Summary - STATEWIDE RADIO AND NETWORK SYSTEM RESERVE FUND** | | | | |
| All Other | 279,044 | 1,652,040 | 1,712,000 | 3,423,253 |
| Total | 279,044 | 1,652,040 | 1,712,000 | 3,423,253 |
| **Department Summary - STATE ADMINISTERED FUND** | | | | |
| All Other | 2,094,628 | 2,094,628 | 2,043,126 | 2,043,128 |
| Total | 2,094,628 | 2,094,628 | 2,043,128 | 2,043,128 |
| **Department Summary - STATE LOTTERY FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 28.000 | 28.000 | 26.000 | 26.000 |
| Personal Services | 1,678,769 | 1,756,900 | 1,733,842 | 1,771,176 |
| All Other | 2,932,139 | 2,932,139 | 2,932,139 | 2,932,139 |
| Total | 4,610,908 | 4,689,039 | 4,665,981 | 4,703,315 |
| **Department Summary - RETIREE HEALTH INSURANCE - LAW ENFORCEMENT/FIRE FIGHTERS** | | | | |
| Positions - LEGISLATIVE COUNT | | 1.000 | 1.000 | 1.000 |
| Personal Services | | 26,000 | 52,209 | 54,660 |
| All Other | | 55,000 | 57,183 | 57,234 |
| Total | 0 | 81,000 | 109,392 | 111,894 |

## BUREAU OF REVENUE SERVICES FUND 0885

**What the Budget purchases:**

The Bureau of Revenue Services Fund exists to provide a vehicle to deliver revenue collection services throughout State Government.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - BUREAU OF REVENUE SERVICES FUND** | | | | |
| All Other | 625,000 | 150,000 | 150,000 | 150,000 |
| Total | 625,000 | 150,000 | 150,000 | 150,000 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** NONE | | |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - BUREAU OF REVENUE SERVICES FUND** | | | | |
| All Other | 625,000 | 150,000 | 150,000 | 150,000 |
| Total | 625,000 | 150,000 | 150,000 | 150,000 |

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### 0885 Bureau of Revenue Services Fund

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **Bureau of Revenue Services Fund** | $150,000 | $150,000 |

**Justification:**

Provide imaging, scanning, debt collection, and administrative services to other state agencies. Provide a vehicle to deliver revenue collection services throughout state government.

**COUNTY TAX REIMBURSEMENT 0263**

**What the Budget purchases:**

The purpose of the program is to reimburse county governments for services performed for residents of the unorganized townships.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| All Other | 950,000 | 990,000 | 990,000 | 990,000 |
| Total | 950,000 | 990,000 | 990,000 | 990,000 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Provides funding for an anticipated increase in excise tax reimbursements. | | |
| **OTHER SPECIAL REVENUE FUNDS** | | |
| All Other | 49,500 | 101,475 |
| Total | 49,500 | 101,475 |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| All Other | 950,000 | 990,000 | 1,039,500 | 1,091,475 |
| Total | 950,000 | 990,000 | 1,039,500 | 1,091,475 |

## 0263 County Tax Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | $990,000 | $990,000 |

**Justification:**

The primary function of this program is to ensure that revenue collected from Unorganized Territory taxpayers for motor vehicle and watercraft excise taxes is used to provide services to the Unorganized Territory Tax District. Receipts are funneled to the appropriate County treasury having jurisdiction over that unorganized place. This money is used to reduce the amount that would otherwise need to be raised through the property tax for the purpose of reimbursing counties for services provided by them in Unorganized Territory within that County. The State Tax Assessor has authorized 61 agents to serve as Unorganized Territory tax collectors at various locations throughout twelve of the sixteen Maine counties. Typically, agent-collectors are also municipal excise tax collectors serving in jurisdictions near selected Unorganized Territory residential areas. This revenue line has proved very difficult to project because the inventory of vehicles changes constantly and may be somewhat cyclical. Inasmuch as vehicle ownership and frequency of replacement follow no discernable pattern or trend our estimations do not warrant a high degree of confidence.

**Initiative:**

Provides funding for an anticipated increase in excise tax reimbursements.

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | $49,500 | $101,475 |

**Justification:**

Provides funding at an anticipated level for reimbursements for excise tax paid on motor vehicles, motor boats etc.

## ELDERLY TAX DEFERRAL PROGRAM 0650

**What the Budget purchases:**

The Elderly Tax Deferral Program enables previously qualified Maine resident elderly homeowners to defer payment of homestead property taxes. This program is intended to reduce the incidence of displacing elderly persons from the homestead.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| All Other | 40,900 | 41,923 | 41,923 | 41,923 |
| Total | 40,900 | 41,923 | 41,923 | 41,923 |

**Initiative:** Reduces funding to the anticipated level of expenditures for the Elderly Tax Deferral program.

| | 2007-08 | 2008-09 |
|---|---|---|
| **OTHER SPECIAL REVENUE FUNDS** | | |
| All Other | (11,923) | (12,923) |
| Total | (11,923) | (12,923) |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| All Other | 40,900 | 41,923 | 30,000 | 29,000 |
| Total | 40,900 | 41,923 | 30,000 | 29,000 |

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### 0650 Elderly Tax Deferral Program

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | **$41,923** | **$41,923** |

**Justification:**

The purpose of the Elderly Tax Deferral Program is to enable qualifying Maine Resident elderly homeowners to defer payment of "homestead" property taxes. Property taxes may present hardships for some elderly homeowners with limited income. This program can help reduce the incidence of elderly persons being displaced from the homestead. The State pays the participant's property tax directly to the municipality that expects timely payment of property taxes in order to maintain necessary services. The program assists those elderly homeowners that may not have the financial ability to satisfy payment demands in full or in a timely fashion and thus may otherwise be compelled to sell the property, seek relief or face tax lien proceedings. The interest of the State in the property is protected by the filing of a lien. Applications with instructions were made available to interested persons by Maine Revenue Services. The taxpayer filed a completed application with the municipal assessor, who appends parcel identifier information and forwards it to the State Tax Assessor. Taxpayers deemed eligible under ownership, residency, age and income criteria were accepted and notified. Municipal officials were then instructed to forward tax statements for the homestead to the State. The State issues payment to the town, produces an annual account statement for the participant, and files a list of liens on deferred properties at the appropriate Registry of Deeds. The program was available to application through March 31, 1991. The program now consists of paying the annual obligations of initially qualified participants, providing necessary account statements, filing notice of lien and discharging liens resulting from attrition.

**Initiative:**

Reduces funding to the anticipated level of expenditures for the Elderly Tax Deferral program.

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | **$(11,923)** | **$(12,923)** |

**Justification:**

The number of participants in this program continues to decline.

## HOMESTEAD PROPERTY TAX EXEMPTION - MANDATE REIMBURSEMENT 0887

**What the Budget purchases:**

The Homestead Exemption Administrative Cost Reimbursement program is required by statute to offset in full, the added local costs incurred by local governments to administer the local property tax exemption program for certain homestead property of qualified Maine residents.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| All Other | 140,600 | 25,600 | 25,600 | 25,600 |
| Total | 140,600 | 25,600 | 25,600 | 25,600 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Provides funding for mandated homestead property tax exemptions. | | |
| **GENERAL FUND** | | |
| All Other | 5,400 | 5,400 |
| Total | 5,400 | 5,400 |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| All Other | 140,600 | 25,600 | 31,000 | 31,000 |
| Total | 140,600 | 25,600 | 31,000 | 31,000 |

## 0887 Homestead Property Tax Exemption - Mandate Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$25,600** | **$25,600** |

**Justification:**

The Homestead Tax Exemption Mandate Reimbursement Program is included in Chapter 643 Part HHH-3, PL 1997. The purpose of the program is to reimburse municipalities and the Unorganized Territory Education and Services Fund for state mandated costs related to the implementation of the Homestead Tax Exemption Program as required under the Constitution of Maine, Article IX, Section 21, and Title 30-A, sec. 5685.

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**Initiative:**

Provides funding for mandated homestead property tax exemptions.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$5,400** | **$5,400** |

**Justification:**

Municipal re-evaluations and an active real estate market have resulted in an increase in municipal homestead property tax exemption application processing.

## HOMESTEAD PROPERTY TAX EXEMPTION REIMBURSEMENT 0886

**What the Budget purchases:**

The Homestead Property Tax Exemption Reimbursement program exists to help offset the effect on local property tax burdens arising from the municipal exemption of certain homestead property of qualified Maine residents.

| Program Summary - GENERAL FUND | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| All Other | 31,638,172 | 31,167,826 | 36,267,826 | 36,267,826 |
| Total | 31,638,172 | 31,167,826 | 36,267,826 | 36,267,826 |

**Initiative:** Reduces funding to an anticipated level for reimbursements for homestead property tax exemptions.

| GENERAL FUND | 2007-08 | 2008-09 |
|---|---|---|
| All Other | (7,661,235) | (7,191,428) |
| Total | (7,661,235) | (7,191,428) |

| Revised Program Summary - GENERAL FUND | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| All Other | 31,638,172 | 31,167,826 | 28,606,591 | 29,076,398 |
| Total | 31,638,172 | 31,167,826 | 28,606,591 | 29,076,398 |

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### 0886 Homestead Property Tax Exemption Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $36,267,826 | $36,267,826 |

**Justification:**

The purpose of the reimbursement is to offset the effect upon local property tax burden arising from the municipal exemption provided for the homestead of qualified residents that can certify ownership and permanent residency in Maine for the 12 months preceding the April 1st application date.

**Initiative:**

Reduces funding to an anticipated level for reimbursements for homestead property tax exemptions.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $(7,661,235) | $(7,191,428) |

**Justification:**

A decline in the municipal MIL rates has reduced the number of homestead property tax exemptions.

## MAINE ASTHMA AND LUNG DISEASE RESEARCH FUND Z026

**What the Budget purchases:**

The Maine Asthma and Lung Disease Research Fund within the Department of Administrative and Financial Services was established to account for outside contributions used to pay the administrative costs of Maine Revenue Services to administer the income tax checkoff program in accordance with the Maine Revised Statutes, Title 36, section 5290.

| Program Summary - OTHER SPECIAL REVENUE FUNDS | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| All Other | | | 14,648 | 14,648 | 14,648 |
| | Total | 0 | 14,648 | 14,648 | 14,648 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** NONE | | |

| Revised Program Summary - OTHER SPECIAL REVENUE FUNDS | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| All Other | | | 14,648 | 14,648 | 14,648 |
| | Total | 0 | 14,648 | 14,648 | 14,648 |

## Z026 Maine Asthma and Lung Disease Research Fund (DAFS)

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | **$14,648** | **$14,648** |

**Justification:**

The purpose of the Maine Asthma and Lung Disease Research Fund within the Department of Administrative and Financial Services is to account for and transfer contributions made to the Fund via the income tax checkoff to the Department of Health and Human Services and to account for other contributions that are used to pay the administrative costs of Maine Revenue Services to administer the income tax checkoff program in accordance with the Maine Revised Statutes, Title 36, section 5290.

## REVENUE SERVICES - BUREAU OF 0002

**What the Budget purchases:**

Maine Revenue Services (MRS) exists primarily to collect tax revenues necessary to support Maine State Government. To achieve this end, the bureau must responsibly administer state tax law. Subsidiary responsibilities of MRS include (1) oversight of municipal tax administration in order to assist municipalities and provide uniformity of local taxes throughout the State; and (2) operation of various tax relief programs to provide tax relief to taxpayers pursuant to Maine law.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 322.000 | 322.000 | 320.500 | 320.500 |
| Positions - FTE COUNT | 0.769 | 0.769 | 0.769 | 0.769 |
| Personal Services | 19,375,848 | 17,975,465 | 20,912,215 | 21,586,959 |
| All Other | 10,371,561 | 12,789,726 | 12,460,572 | 12,460,572 |
| Capital Expenditures | 260,200 | 268,000 | | |
| Total | 30,007,609 | 31,033,191 | 33,372,787 | 34,047,531 |
| **Program Summary - HIGHWAY FUND - Informational** | | | | |
| Positions - LEGISLATIVE COUNT | 3.000 | 3.000 | 3.000 | 3.000 |
| Personal Services | 199,900 | 203,452 | 229,196 | 233,332 |
| All Other | 22,256 | 24,394 | 24,394 | 24,394 |
| Total | 222,156 | 227,846 | 253,590 | 257,726 |
| **Program Summary - FEDERAL EXPENDITURES FUND** | | | | |
| All Other | 5,000 | 5,000 | 5,000 | 5,000 |
| Total | 5,000 | 5,000 | 5,000 | 5,000 |
| **Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | |
| All Other | 3,578,980 | 3,622,453 | 3,622,453 | 3,622,453 |
| Total | 3,578,980 | 3,622,453 | 3,622,453 | 3,622,453 |

**Initiative:** Provides funding to meet contractual obligations for temporary personnel contracts used during tax season to handle and process tax returns. Failure to fund this request will hinder the bureau's ability to process tax returns and deposit revenues in a timely manner.

| | 2007-08 | 2008-09 |
|---|---|---|
| **GENERAL FUND** | | |
| All Other | 336,959 | 349,149 |
| Total | 336,959 | 349,149 |

**Initiative:** Provides funding for the updating of econometric database information used for revenue projections provided to the Revenue Forecasting Committee.

| | 2007-08 | 2008-09 |
|---|---|---|
| **GENERAL FUND** | | |
| All Other | | 300,000 |
| Total | 0 | 300,000 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Provides funding for the debt service payments for the Maine Revenue Integrated Tax System (MERITS) project which was authorized by Public Law 2005, chapter 519, Part O, section O-1 and are expected to be $2,281,261 annually.

| GENERAL FUND | | | |
|---|---|---|---|
| All Other | | 2,281,261 | 2,281,261 |
| | Total | 2,281,261 | 2,281,261 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Provides funding for an additional law enforcement contractor position assigned to uncollectible cases. Currently one contractor is responsible in this area but the workload is overwhelming for this one person. It is anticipated with 2 people assigned to these cases that net additional General Fund undedicated revenue of $237,000 will be generated each year.

| GENERAL FUND | | | |
|---|---|---|---|
| All Other | | 57,638 | 59,368 |
| | Total | 57,638 | 59,368 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Provides funding for increased legal services provided by the Office of the Attorney General to Maine Revenue Services for out-of-state judgment work, injunctions and lien enforcement. It is estimated that this initiative will generate net additional General Fund undedicated revenue of $479,688 annually.

| GENERAL FUND | | | |
|---|---|---|---|
| All Other | | 80,162 | 84,792 |
| | Total | 80,162 | 84,792 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Provides funding for current contractual obligations relating to out-of-state income tax debt collections.

| OTHER SPECIAL REVENUE FUNDS | | | |
|---|---|---|---|
| All Other | | 860,947 | 866,047 |
| | Total | 860,947 | 866,047 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Transfers 2 Senior Revenue Agent positions and allocates Personal Services funding for an additional 5.3 full-time equivalent positions and All Other funds related to these positions from the General Fund to the Highway Fund in order to properly recognize and account for the total costs of fuel tax administration within the Maine Revenue Services program in the Highway Fund. This initiative will reduce General Fund undedicated revenue by $690,000 in fiscal year 2007-08 and $690,000 in fiscal year 2008-09.

| GENERAL FUND | | | |
|---|---|---|---|
| Positions - LEGISLATIVE COUNT | | -2.000 | -2.000 |
| Personal Services | | (515,421) | (531,173) |
| All Other | | (140,217) | (147,483) |
| | Total | (655,638) | (678,656) |

| HIGHWAY FUND - Informational | | | |
|---|---|---|---|
| Positions - LEGISLATIVE COUNT | | 2.000 | 2.000 |
| Personal Services | | 515,421 | 531,173 |
| All Other | | 140,217 | 147,483 |
| | Total | 655,638 | 678,656 |

| | | 2007-08 | 2008-09 |
|---|---|---|---|

**Initiative:** Adjusts funding for supporting existing information technology agency applications within the agency.

| GENERAL FUND | | | |
|---|---|---|---|
| All Other | | 210,869 | 501,032 |
| | Total | 210,869 | 501,032 |

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 07

**Part and Section:** A-1

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | $237,000 | $237,000 |

**Description of Initiative:**

The revenue increase is related to an initiative that provides funding for an additional law enforcement contractor position assigned to uncollectible cases. Currently one contractor is responsible in this area but the workload is overwhelming for this one person. It is anticipated with 2 people assigned to these cases that net additional General Fund undedicated revenue of $237,000 will be generated each year.

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No) ___

The revenue impact is on-going.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 07

**Part and Section:** A-1

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | $479,688 | $479,688 |

**Description of Initiative:**

The revenue increase is related to an initiative that provides funding for increased legal services provided by the Office of the Attorney General to Maine Revenue Services for out-of-state judgment work, injunctions and lien enforcement. It is estimated that this initiative will generate net additional General Fund undedicated revenue of $479,688 annually.

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No)

The revenue impact is on-going.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 07

**Part and Section:** A-1

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | ($690,000) | ($690,000) |

**Description of Initiative:**

The revenue decrease is related to an initiative that transfers 2 Senior Revenue Agent positions and allocates Personal Services funding for an additional 5.3 full-time equivalent positions and All Other funds related to these positions from the General Fund to the Highway Fund in order to properly recognize and account for the total costs of fuel tax administration within the Maine Revenue Services program in the Highway Fund. This initiative will reduce General Fund undedicated revenue by $690,000 in fiscal year 2007-08 and $690,000 in fiscal year 2008-09.

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No)

The revenue impact is on-going.

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Eliminates one District Tax Audit Manager position and one Office Associate II position and related All Other savings from the closure of the Bangor branch of Maine Revenue Services. | | |
| **GENERAL FUND** | | |
| Positions - LEGISLATIVE COUNT | -2.000 | -2.000 |
| Personal Services | (154,001) | (157,313) |
| All Other | (20,660) | (20,660) |
| Total | (174,661) | (177,973) |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Eliminates 2 Senior Tax Examiner positions, 9 Tax Examiner positions, 2 Office Assistant II positions and one Office Associate II position and related All Other savings from the closure of the Houlton branch of Maine Revenue Services. | | |
| **GENERAL FUND** | | |
| Positions - LEGISLATIVE COUNT | -14.000 | -14.000 |
| Personal Services | (781,308) | (811,162) |
| All Other | (31,540) | (31,540) |
| Total | (812,848) | (842,702) |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Establishes one Tax Section Manager position, 3 Senior Tax Examiner positions and 4 Tax Examiner positions and related All Other funds for the Augusta Branch Office of Maine Revenue Services to carry out the work of those positions that were eliminated from the closure of the Bangor and Houlton branches. | | |
| **GENERAL FUND** | | |
| Positions - LEGISLATIVE COUNT | 8.000 | 8.000 |
| Personal Services | 489,025 | 516,200 |
| All Other | 50,900 | 13,300 |
| Total | 539,925 | 529,500 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Reduces funding from savings identified in the All Other line category for Maine Revenue Services. | | |
| **GENERAL FUND** | | |
| All Other | (356,109) | (356,109) |
| Total | (356,109) | (356,109) |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| Positions - LEGISLATIVE COUNT | 322.000 | 322.000 | 310.500 | 310.500 |
| Positions - FTE COUNT | 0.769 | 0.769 | 0.769 | 0.769 |
| Personal Services | 19,375,848 | 17,975,465 | 19,950,510 | 20,603,511 |
| All Other | 10,371,561 | 12,789,726 | 14,929,835 | 15,493,682 |
| Capital Expenditures | 260,200 | 268,000 | | |
| Total | 30,007,609 | 31,033,191 | 34,880,345 | 36,097,193 |
| **Revised Program Summary - HIGHWAY FUND - Informational** | | | | |
| Positions - LEGISLATIVE COUNT | 3.000 | 3.000 | 5.000 | 5.000 |
| Personal Services | 199,900 | 203,452 | 744,617 | 764,505 |
| All Other | 22,256 | 24,394 | 164,611 | 171,877 |
| Total | 222,156 | 227,846 | 909,228 | 936,382 |

| | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| **Revised Program Summary - FEDERAL EXPENDITURES FUND** | | | | | |
| All Other | | 5,000 | 5,000 | 5,000 | 5,000 |
| | **Total** | 5,000 | 5,000 | 5,000 | 5,000 |
| **Revised Program Summary - OTHER SPECIAL REVENUE FUNDS** | | | | | |
| All Other | | 3,578,980 | 3,622,453 | 4,483,400 | 4,488,500 |
| | Total | 3,578,980 | 3,622,453 | 4,483,400 | 4,488,500 |

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### 0002 Revenue Services - Bureau of

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $33,372,787 | $34,047,531 |
| **Federal Expenditures Fund** | $5,000 | $5,000 |
| **Other Special Revenue Funds** | $3,622,453 | $3,622,453 |

**Justification:**

Maine Revenue Services (MRS) exists primarily to collect tax revenues necessary to support Maine State Government. In order to achieve this end, MRS must responsibly administer state tax law. Subsidiary responsibilities of MRS include 1) oversight of municipal tax administration in order to assist municipalities and provide uniformity of local taxes throughout the state, and 2) operation of various tax relief programs to provide tax relief to taxpayers pursuant to Maine law. In order to achieve MRS' purposes, these major functional areas have evolved. The duties of each are divided among operating divisions of Maine Revenue Services. Tax Administration: Income & Estate Division administers income and estate tax law and the Maine Residents Property Tax Program; and the Business Equipment Tax Reimbursement ("BETR") Program; Sales, Fuel & Special Tax Division administers sales/use and fuel tax law, recycling assistance fee and various tax refund programs; Property Tax Division administers oversight and provides direction to municipal tax administration, determination of the Municipal State Valuation, property and motor vehicle/watercraft excise taxation in the Unorganized Territories and the Tree Growth Tax Law and Veterans' Exemption statute and the Homestead Tax Exemption Reimbursement Program; and the Legal Research Division provides the assessor with legal research into questions of tax law, supports the Attorney General's legal representation by serving as a communication link, and reviews and comments on the determinations prepared by the Appellate Division. Operations: Operations Division provides mail processing and deposits tax revenues, prepares budgets for the Bureau, monitors Bureau expenditures, provides bureau-wide business services, analyzes tax legislation and operates, maintains and develops the Bureau's computer network; Computer Services & Data Entry Division designs, maintains and operates automated systems within the Bureau, provides oversight of Bureau electronic data processing hardware, and provides Bureau-wide data entry services; and the Research Division provides research support to the Bureau, develops economic models for tax policy analysis, and monitors monthly tax revenues. Compliance: Sales, Fuel & Special Tax Division, Audit Unit, audits various businesses and individuals to determine their tax liabilities and assists taxpayers in the understanding necessary to comply with Maine tax law; the Enforcement Division serves as the Bureau's collection agency for delinquent taxes and pursues tax returns which are not filed in a timely fashion; and the Appellate Division drafts recommended decisions of the assessor in matters relating to reconsideration and abatement requests and conducts required taxpayer conferences.

**Initiative:**

Provides funding to meet contractual obligations for temporary personnel contracts used during tax season to handle and process tax returns. Failure to fund this request will hinder the bureau's ability to process tax returns and deposit revenues in a timely manner.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $336,959 | $349,149 |

**Justification:**

Temporary personnel contract for tax return processing is expected to be $664,768 in FY08 and FY09. Actual expenditures in this category were $1,368,905 in FY06 and current level funding is $914,359. Additional funding needed to meet contractual obligations.

**Initiative:**

Provides funding for the updating of econometric database information used for revenue projections provided to the Revenue Forecasting Committee.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$-** | **$300,000** |

**Justification:**

Approximately every 2 years federal data from 1040 returns is updated and made available to the state. Funds are required for consulting services to ensure that the information used in revenue forecasting is current.

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**Initiative:**

Provides funding for the debt service payments for the Maine Revenue Integrated Tax System (MERITS) project authorized by Public Law 2005, chapter 519, Part O, section 1 and are expected to be $2,281,261 annually.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$2,281,261** | **$2,281,261** |

**Justification:**

Public Law 2005, chapter 519, Part O, Section O-1 authorized the Department of Administrative and Financial Services, Office of Information Technology to enter into financing arrangements for the acquisition of hardware, software and other systems retrofitting to support the operations of the Maine Revenue Services tax administration. The financial agreement may not exceed 7 years and $14,000,000 in principal costs.

---

**Initiative:**

Provides funding for an additional law enforcement contractor position assigned to uncollectible cases. Currently one contractor is responsible in this area but the workload is overwhelming for this one person. It is anticipated with 2 people assigned to these cases that net additional General Fund undedicated revenue of $237,000 will be generated each year.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$57,638** | **$59,368** |

**Justification:**

There are currently four contracted law enforcement personnel; three of which work primarily on sales and income tax debt cases. The fourth position is part of a new undertaking assigned to uncollectible cases. The work in this field is overwhelming for one person. Net additional General Fund undedicated revenues of $237,000 would be generated each year with the addition of this position.

---

**Initiative:**

Provides funding for increased legal services provided by the Office of the Attorney General to Maine Revenue Services for out-of-state judgment work, injunctions and lien enforcement. It is estimated that this initiative will generate net additional General Fund undedicated revenue of $479,688 annually.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$80,162** | **$84,792** |

**Justification:**

The Office of the Attorney General currently provides these services, however the workload is such that the Statute of Limitations on some of the tax cases has come dangerously close to expiring. The estimated additional gross revenues to be received annually would total $506,000. This amount can be attributed to the following special enforcement functions: Out of State Judgments in the amount of $280,000, Injunctions in the amount of $151,000 and Lien Enforcements in the amount of $75,000.

**Initiative:**

Provides funding for current contractual obligations relating to out-of-state income tax debt collections.

| | 2007-08 | 2008-09 |
|---|---|---|
| **Other Special Revenue Funds** | **$860,947** | **$866,047** |

**Justification:**

The state contracts with an out of state collections department responsible for collecting federal 1040 debt. This account is used to pay contingency related expenditures. All contingency payments are connected to debt collection. The increase in the amount of 014 funding is a direct result of the bureau's increased collection efforts which in turn equates to high fees being paid out to vendors.

---

**Initiative:**

Transfers 2 Senior Revenue Agent positions and allocates Personal Services funding for an additional 5.3 full-time equivalent positions and All Other funds related to these positions from the General Fund to the Highway Fund in order to properly recognize and account for the total costs of fuel tax administration within the Maine Revenue Services program in the Highway Fund. This initiative will reduce General Fund undedicated revenue by $690,000 in fiscal year 2007-08 and $690,000 in fiscal year 2008-09.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$(655,638)** | **$(678,656)** |

**Justification:**

Currently, the General Fund is reimbursed by the Highway Fund for services provided by Maine Revenue Service's revenue agents, administrative support staff and legislative analysts. There are currently 3 agents being paid directly from the Maine Revenue Service Highway Fund budget and 7.3 full time equivalent positions that are paid for through a transfer of funds from the Highway Fund to the General Fund. Reimbursement for the 5.3 FTE's occurs through an internal invoice, set-up in quarterly installments by General Government Service Center personnel. What is proposed is that these costs (Personal Services and All Other costs) would be included with the bureau's existing Highway Fund Budget (012-18F-0002-07) beginning with the 08/09 biennium. The benefit to both agencies is the increased visibility of the costs for fuel tax administration and the elimination of quarterly internal invoices. The new process would create an allocation in the Highway Fund to more visibly account for the total costs of fuel tax administration and eliminate the need for a fund transfer.

---

**Initiative:**

Adjusts funding for supporting existing information technology agency applications within the agency.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$210,869** | **$501,032** |

**Justification:**

Incremental cost for the management and maintenance of existing applications not attributable to the OIT consolidation or OIT rates. The programs impacted in DAFS are the Office of Information Services - Administration; Maine Revenue Services, and the Office of the State Controller. Examples of these costs include vendor support contracts, software licenses, equipment, and equipment maintenance.

---

**Initiative:**

Eliminates one District Tax Audit Manager position and one Office Associate II position and related All Other savings from the closure of the Bangor branch of Maine Revenue Services.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$(174,661)** | **$(177,973)** |

**Justification:**

Eliminates one District Tax Audit Manager position and one Office Associate II position and related All Other savings from the closure of the Bangor branch of Maine Revenue Services.

---

**Initiative:**

Eliminates 2 Senior Tax Examiner positions, 9 Tax Examiner positions, 2 Office Assistant II positions and one Office Associate II position and related All Other savings from the closure of the Houlton branch of Maine Revenue Services.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $(812,848) | $(842,702) |

**Justification:**

Eliminates 2 Senior Tax Examiner positions, 9 Tax Examiner positions, 2 Office Assistant II positions and one Office Associate II position and related All Other savings from the closure of the Houlton branch of Maine Revenue Services.

---

**Initiative:**

Establishes one Tax Section Manager position, 3 Senior Tax Examiner positions and 4 Tax Examiner positions and related All Other funds for the Augusta branch office of Maine Revenue Services to carry out the work of those positions that were eliminated from the closure of the Bangor and Houlton branches.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $539,925 | $529,500 |

**Justification:**

Establishes one Tax Section Manager position, 3 Senior Tax Examiner positions and 4 Tax Examiner positions and related All Other funds for the Augusta Branch Office of Maine Revenue Services to carry out the work of those positions that were eliminated from the closure of the Bangor and Houlton branches.

---

**Initiative:**

Reduces funding from savings identified in the All Other line category for Maine Revenue Services.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $(356,109) | $(356,109) |

**Justification:**

Reduces funding from savings identified in the All Other by reducing computer consulting expenditures, eliminating a law school intern program, relocating the Taxpayer Service Center from the Muskie Federal Building to MRS main offices, ending paid advertising for the Tax and Rent Refund Program and making less use of certified mail.

## SNOW GROOMING PROPERTY TAX EXEMPTION REIMBURSEMENT Z024

**What the Budget purchases:**

The Snow Grooming Property Tax Exemption Reimbursement program was established to reimburse municipalities 50% of the property tax revenue loss as a result of the exemption for snow grooming equipment registered with the Department of Inland Fisheries and Wildlife.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| All Other | | 18,565 | 18,565 | 18,565 |
| Total | 0 | 18,565 | 18,565 | 18,565 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** NONE | | |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| All Other | | 18,565 | 18,565 | 18,565 |
| Total | 0 | 18,565 | 18,565 | 16,565 |

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

### Z024 Snow Grooming Property Tax Exemption Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $18,565 | $18,565 |

**Justification:**

The purpose of the Snow Grooming Property Tax Exemption Reimbursement program is to reimburse municipalities 50% of the property tax revenue loss as a result of the exemption for snow grooming equipment registered with the Department of Inland Fisheries and Wildlife.

## TREE GROWTH TAX REIMBURSEMENT 0261

**What the Budget purchases:**

The Tree Growth Tax Reimbursement program exists to restrain municipal property tax rates for towns that experience a substantial tax shift due to the mandated use of (lower) current use values in place of (higher) ad valorem values for assessing classified forest land.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| All Other | | 5,400,000 | 5,400,000 | 5,400,000 |
| Total | 0 | 5,400,000 | 5,400,000 | 5,400,000 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Provides funding for tree growth tax reimbursements for cities and towns. | | |
| **GENERAL FUND** | | |
| All Other | 200,000 | 300,000 |
| Total | 200,000 | 300,000 |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| All Other | | 5,400,000 | 5,600,000 | 5,700,000 |
| Total | 0 | 5,400,000 | 5,600,000 | 5,700,000 |

## 0261 Tree Growth Tax Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $5,400,000 | $5,400,000 |

**Justification:**

The purpose of the Tree Growth Tax Reimbursement Program is to help moderate property tax rates for municipalities that experience reduced valuations due to the mandated use of (lower) current use values in place of (higher) ad valorem values. The reduced valuation on forestland causes a general shift in local tax burden to non-classified property because the lower taxable valuation base produces a somewhat higher property tax rate. Municipal reimbursement is appropriate when it is determined that the use of mandated Tree Growth values results in a "tax loss" associated with classified forest lands as determined according to the statutorily established formula. The "tax loss" is offset by the calculated municipal savings in local share education costs that results from a lower State Valuation attributed to the use of Tree Growth values in determining said state valuation. Furthermore, the 90% amount of statutory reimbursement is subject to prorating based on the program allocation if full funding is not provided. In addition, municipalities that fail to comply with statutory requirements to maintain at least a 70% assessment ratio or timely file a completed Municipal Valuation Return will forfeit some or all of their reimbursement. There are at least 3,664,077 classified acres included in 22,199 parcels in municipalities statewide. Nine municipalities have no land classified in Tree Growth. There are 7,568,360 acres of classified forestland in the Unorganized Territory that receives no reimbursement. Forty percent of Unorganized Territory revenue is derived from owners of forestland classified under the Tree Growth Tax Law.

**Initiative:**

Provides funding for tree growth tax reimbursements for cities and towns.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $200,000 | $300,000 |

**Justification:**

As the state increases education subsidy to meet the 55% requirement, the municipal education costs offset in the Tree Growth Reimbursement formula are reduced, increasing the amount of reimbursement for most municipalities.

## VETERANS TAX REIMBURSEMENT 0407

**What the Budget purchases:**

The Veterans Tax Reimbursement program's purpose is to diminish the effect on local property tax burdens arising from the municipal exemption of certain property of qualifying veterans.

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | |
| All Other | | 895,000 | 895,000 | 895,000 |
| Total | 0 | 895,000 | 895,000 | 895,000 |

| | 2007-08 | 2008-09 |
|---|---|---|
| **Initiative:** Reduces funding to an anticipated level for veterans tax reimbursements. | | |
| **GENERAL FUND** | | |
| All Other | (95,000) | (70,000) |
| Total | (95,000) | (70,000) |

| | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | |
| All Other | | 895,000 | 800,000 | 825,000 |
| Total | 0 | 895,000 | 800,000 | 825,000 |

## 0407 Veterans Tax Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$895,000** | **$895,000** |

**Justification:**

The Veteran's Tax Exemption Reimbursement Program is mandated by Article IV, Part 3, Section 23 of the Maine Constitution. The purpose of the reimbursement is to diminish the effect upon local property tax burden arising from the municipal exemption provided for the estates of qualified veterans and certain survivors of a deceased veteran that are eligible based on the qualifying service of that veteran.

**Initiative:**

Reduces funding to an anticipated level for veterans tax reimbursements.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | **$(95,000)** | **$(70,000)** |

**Justification:**

Declining municipal MIL rates as well as the number of qualifying veterans has resulted in a reduction in the overall reimbursement amounts.

## WASTE FACILITY TAX REIMBURSEMENT 0907

**What the Budget purchases:**

The purpose of the program is to reimburse municipalities for 50% of property tax revenue lost as a result of property tax exemptions provided to waste storage facilities.

| | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| **Program Summary - GENERAL FUND** | | | | | |
| All Other | | 5,850 | 5,950 | 5,950 | 5,950 |
| | Total | 5,850 | 5,950 | 5,950 | 5,950 |

**Initiative:** Provides funding for tax reimbursements to cities and towns for waste facilities.

| | | 2007-08 | 2008-09 |
|---|---|---|---|
| **GENERAL FUND** | | | |
| All Other | | 3,050 | 4,050 |
| | Total | 3,050 | 4,050 |

| | | Actual 2005-06 | Current 2006-07 | Budgeted 2007-08 | Budgeted 2008-09 |
|---|---|---|---|---|---|
| **Revised Program Summary - GENERAL FUND** | | | | | |
| All Other | | 5,850 | 5,950 | 9,000 | 10,000 |
| | Total | 5,850 | 5,950 | 9,000 | 10,000 |

## 0907 Waste Facility Tax Reimbursement

**Initiative:**

BASELINE BUDGET

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $5,950 | $5,950 |

**Justification:**

The purpose of this program is to reimburse municipalities for 50% of the loss in property tax revenue resulting from granted property tax exemptions.

**Initiative:**

Provides funding for tax reimbursements to cities and towns for waste facilities.

| | 2007-08 | 2008-09 |
|---|---|---|
| **General Fund** | $3,050 | $4,050 |

**Justification:**

Additional funding request is attributed to an increase in claims for reimbursement.

## PART S

**Sec. S-1. 30-A MRSA §5681, sub-§5, ¶A,** as amended by PL 2005, c. 12, Pt. E, §1, is further amended to read:

A. For months beginning before July 1, ~~2007~~ 2009, 5.1%; and

**Sec. S-2. 30-A MRSA §5681, sub-§5, ¶B,** as amended by PL 2005, c. 12, Pt. E, §1, is further amended to read:

B. For months beginning on or after July 1, ~~2007~~ 2009, 5.2%.

## SUMMARY

## PART S

This Part delays the increase from 5.1% to 5.2% in municipal revenue sharing to July 1, 2009.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 07

**Part and Section:** S

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | $2,646,366 | $2,737,527 |

**Description of Initiative:**

This revenue increase results from delaying the increase in state-municipal revenue sharing from 5.1% to 5.2% from July 1, 2007 to July 1, 2009.

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) ___ (No) X

The revenue impact only effects the 2008-2009 biennium.

## PART T

**Sec. T-1. 36 MRSA §4365,** as amended by PL 2005, c. 457, Pt. AA, §1 and as affected by §8, is further amended to read:

**§4365. Rate of tax**

A tax is imposed on all cigarettes imported into this State or held in this State by any person for sale at the rate of ~~100~~ 150 mills for each cigarette. Payment of the tax is evidenced by the affixing of stamps to the packages containing the cigarettes.

**Sec. T-2. 36 MRSA §4365-F,** as enacted by PL 2005, c. 457, Pt. AA, §3 and as affected by §8, is repealed.

**Sec. T-3. 36 MRSA §4365-G** is enacted to read:

**§4365-G. Application of cigarette tax rate increase effective July 1, 2007**

This section applies to cigarettes held for resale on July 1, 2007.

**1. Stamped rate.** Cigarettes stamped at the rate of 100 mills per cigarette and held for resale after June 30, 2007 are subject to tax at the rate of 150 mills per cigarette.

**2. Liability.** A person possessing cigarettes for resale is liable for the difference between the tax rate of 150 mills per cigarette and the tax rate of 100 mills per cigarette in effect before July 1, 2007. Stamps indicating payment of the tax imposed by this section must be affixed to all packages of cigarettes held for resale as of July 1, 2007, except that cigarettes held in vending machines as of that date do not require that stamp.

**3. Vending machines.** Notwithstanding any other provision of this chapter, it is presumed that all cigarette vending machines are filled to capacity on July 1, 2007 and the tax imposed by this section must be reported on that basis. A credit against this inventory tax must be allowed for cigarettes stamped at the rate of 150 mills per cigarette placed in vending machines before July 1, 2007.

**4. Payment.** Payment of the tax imposed by this section must be made to the assessor by October 1, 2007, accompanied by forms prescribed by the assessor.

**Sec. T-4. 36 MRSA §4366-A, sub-§2,** as amended by PL 2005, c. 622, §25 and as affected by §34, is further amended to read:

**2. Provided to sellers.** The State Tax Assessor shall provide stamps suitable to be affixed to packages of cigarettes as evidence of the payment of the tax imposed by this chapter. The assessor may permit a licensed distributor to pay for the stamps within 30 days after the date of purchase, if a bond satisfactory to the assessor in an amount not less than 50% of the sale price of the stamps has been filed with the assessor conditioned upon payment for the stamps. Such a distributor may continue to purchase stamps on a 30-day deferral basis only if it remains current with its cigarette tax obligations. The assessor may not sell additional stamps to a distributor that has failed to pay in full within 30 days for stamps previously purchased until such time as the overdue payment is received. The assessor shall sell cigarette stamps to licensed distributors at the following discounts from their face value:

A. For stamps at the face value of 37 mills sold through September 30, 2001, 2.5%;

B. For stamps at the face value of 50 mills sold prior to July 1, 2002, 2.16%;

C. For stamps at the face value of 50 mills sold on or after July 1, 2002, 2.03%; ~~and~~

D. For stamps at the face value of 100 mills sold prior to July 1, 2007, 1.15%~~.~~ ; and

E. For stamps at the face value of 150 mills, 0.82%.

**Sec. T-5. 36 MRSA §4403,** as amended by PL 2005, c. 627, §§8 and 9, is further amended to read:

**§4403. Tax on tobacco products**

**1. Smokeless tobacco.** A tax is imposed on all smokeless tobacco, including chewing tobacco and snuff, at the rate of ~~78%~~ 117% of the wholesale sales price beginning ~~October 1, 2005~~ July 1, 2007.

**2. Other tobacco.** A tax is imposed on cigars, pipe tobacco and other tobacco intended for smoking at the rate of ~~20%~~ 30% of the wholesale sales price beginning ~~October 1, 2005~~ July 1, 2007.

**3. Imposition.** The tax is imposed at the time the distributor brings or causes to be brought into this State tobacco products that are for sale to consumers or to retailers or for use or at the time tobacco products are manufactured or fabricated in this State for sale in this State.

**4. Exclusion.** The tax imposed on tobacco products does not apply to those products exported from this State or to any tobacco products ~~which~~ that under laws of the United States may not be subject to taxation by this State.

**SUMMARY**

**PART T**

This Part increases the tax on cigarettes and tobacco products effective as of July 1, 2007.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** **Department of Administrative and Financial Services**

**Program Name:** **Maine Revenue Services**

**Account Number(s):** **010 18F 0002 07**

**Part and Section:** **T**

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | **$68,296,528** | **$68,056,331** |

**Description of Initiative:**

The revenue increase results from:

- Increasing the cigarette tax from 100 mills to 150 mills per cigarette or $2.00 to $3.00 per pack of 20 cigarettes effective July 1, 2007
- Increasing the tax on smokeless tobacco from 78% to 117% of the wholesale sales price effective July 1, 2007
- Increasing the tax on cigars and other smoking tobacco from 20% to 30% of the wholesale sales price effective July 1, 2007

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No)

The revenue impact is on-going.

# PART U

**Sec. U-1. 10 MRSA §1100-Y, sub-§2, ¶A,** as amended by PL 2005, c. 12, Pt. Q, §1, is further amended to read:

A. For initial certification, the organization must be a private, nonprofit organization that is qualified under Section 501(c)(3) of the Internal Revenue Code, that has as one of its purposes the provision of need-based scholarships to eligible students, that meets the standards adopted by the authority by rule under subsection 7, that files reports as required by this section and that:

(1) Is affiliated with and designated by an accredited institution of higher education in this State; or

(2) Has filed as a nonprofit corporation with the Secretary of State on or before April 1, ~~2006~~ 2008 and continues as a nonprofit corporation in good standing with the Secretary of State.

**Sec. U-2. 10 MRSA §1100-Y, sub-§7,** as amended by PL 2005, c. 12, Pt. Q, §2, is further amended to read:

**7. Rulemaking.** The authority, after consultation with the Bureau of Revenue Services, shall establish rules for the application, eligibility and annual filing requirements necessary to implement the certification of qualified scholarship organizations pursuant to this section and may include any rules necessary to establish initial application fees and penalties, which may include monetary penalties and revocation of certification, to ensure that a qualified scholarship organization is fulfilling the requirements of this section. These rules may also include any necessary conflict-of-interest provisions pertaining to qualified scholarship organizations. The authority shall also establish any rules necessary to define postsecondary education loans that are eligible for the recruitment credits provided under Title 36, sections 2528 and 5219-V. Rules adopted pursuant to this subsection, including those setting initial application fees and penalties, are routine technical rules as defined in Title 5, chapter 375, subchapter 2-A. The authority shall submit a report to the joint standing committee of the Legislature having jurisdiction over education and cultural affairs and to the joint standing committee of the Legislature having jurisdiction over taxation matters by January 30, ~~2007~~ 2009 on the rules and rule-making process to implement the tax credit program established pursuant to this subchapter.

**Sec. U-3. 36 MRSA §2527, sub-§2, ¶B,** as amended by PL 2005, c. 12, Pt. Q, §3, is further amended to read:

B. Twenty percent of the amount contributed during the taxable year to a qualified scholarship organization for need-based scholarships for tax years beginning in ~~2007~~ 2009; or

**Sec. U-4. 36 MRSA §2527, sub-§2, ¶C,** as amended by PL 2005, c. 12, Pt. Q, §3, is further amended to read:

C. Fifty percent of the amount contributed during the taxable year to a qualified scholarship organization for need-based scholarships for tax years beginning after ~~2007~~ 2009.

**Sec. U-5. 36 MRSA §2528, sub-§1, ¶B,** as amended by PL 2005, c. 12, Pt. Q, §4, is further amended to read:

B. Beginning in ~~2007~~ 2009, 15% of the amount of loan repayments paid during the taxable year to a creditor on behalf of an employee of the taxpayer as part of a postsecondary education loan repayment agreement between the taxpayer and the employee of the taxpayer.

**Sec. U-6. 36 MRSA §5219-U, sub-§2, ¶B,** as amended by PL 2005, c. 12, Pt. Q, §5, is further amended to read:

B. Twenty percent of the amount contributed during the taxable year to a qualified scholarship organization for need-based scholarships for tax years beginning in ~~2007~~ 2009; or

**Sec. U-7. 36 MRSA §5219-U, sub-§2, ¶C,** as amended by PL 2005, c. 12, Pt. Q, §5, is further amended to read:

C. Fifty percent of the amount contributed during the taxable year to a qualified scholarship organization for need-based scholarships for tax years beginning after ~~2007~~ 2009.

**Sec. U-8. 36 MRSA §5219-V, sub-§1, ¶B,** as amended by PL 2005, c. 12, Pt. Q, §6, is further amended to read:

B. Beginning in ~~2007~~ 2009, 15% of the amount of loan repayments paid during the taxable year to a creditor on behalf of an employee of the taxpayer as part of a postsecondary education loan repayment agreement between the taxpayer and the employee of the taxpayer.

**Sec. U-9. Application.** This Part applies to tax years beginning on or after January 1, 2007.

## SUMMARY
## PART U

This Part delays implementation of the education tax credit from contributions made on or after January 1, 2007 to January 1, 2009.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** Department of Administrative and Financial Services

**Program Name:** Maine Revenue Services

**Account Number(s):** 010 18F 0002 07

**Part and Section:** U

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | **$1,515,835** | **$3,087,625** |

**Description of Initiative:**

The revenue increase results from delaying the implementation of the educational attainment investment tax credit and the recruitment credit from 2007 to 2009.

**NOTE:** These provisions are included in Committee Amendment "A" to LD 215, the Emergency FY 07 Budget Bill.

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No)

The revenue impact is on-going.

## PART V

**Sec. V-1. 36 MRSA §5142, sub-§3-A,** as enacted by PL 2005, c. 12, Pt. MMMM, §1 and as affected by §3, is amended to read:

**3-A. Gain or loss on sale of partnership interest.** Notwithstanding subsection 3, the gain or loss on the sale of a partnership interest is sourced to this State in an amount equal to the gain or loss multiplied by the ratio obtained by dividing the original cost of partnership tangible property located in Maine by the original cost of partnership tangible property everywhere, determined at the time of the sale. Tangible property includes property owned or rented and is valued in accordance with section 5211, <u>former</u> subsection 10. If more than 50% of the value of the partnership's assets consist of intangible property, gain or loss from the sale of the partnership interest is sourced to this State in accordance with the sales factor of the partnership for its first full tax period immediately preceding the tax period of the partnership during which the partnership interest was sold. For purposes of this subsection, the sales factor of a partnership is determined in accordance with section 5211, subsections 14, 15 and 16. This subsection does not apply to the sale of a limited partner's interest in an investment partnership where more than 80% of the value of the partnership's total assets consists of intangible personal property held for investment, except that such property cannot include an interest in a partnership unless that partnership is itself an investment partnership.

If the apportionment provisions of this section do not fairly represent the extent of the partnership's business activity in this State, the taxpayer may petition for, or the State Tax Assessor may require, in respect to all or any part of the partnership's business activity the employment of any other method to effectuate an equitable apportionment to this State of the partner's income from the sale of the partnership interest.

**Sec. V-2. 36 MRSA §5211, sub-§8,** as amended by PL 1991, c. 502, §1 and as affected by §2, is further amended to read:

**8. Formula for apportionment of income to State.** All income shall be apportioned to this State by multiplying the income by ~~a fraction, the numerator of which is the property factor plus the payroll factor plus twice~~ the sales factor~~, and the denominator of which is 4~~.

**Sec. V-3. 36 MRSA §5211, sub-§9,** as enacted by P&SL 1969, c. 154, §F, is repealed.

**Sec. V-4. 36 MRSA §5211, sub-§10,** as amended by PL 1999, c. 708, §43, is repealed.

**Sec. V-5. 36 MRSA §5211, sub-§11,** as enacted by P&SL 1969, c. 154, §F, is repealed.

**Sec. V-6. 36 MRSA §5211, sub-§12,** as amended by PL 2001, c. 439, Pt. D, §8 and as affected by §9, is repealed.

**Sec. V-7. 36 MRSA §5211, sub-§13,** as enacted by P&SL 1969, c. 154, §F, is repealed.

**Sec. V-8. 36 MRSA §5211, sub-§17, ¶A,** as enacted by P&SL 1969, c. 154, §F, is amended to read:

A. Separate accounting; <u>or</u>

**Sec. V-9. 36 MRSA §5211, sub-§17, ¶B,** as enacted by P&SL 1969, c. 154, §F, is repealed.

**Sec. V-10. 36 MRSA §5211, sub-§17, ¶C,** as enacted by P&SL 1969, c. 154, §F, is repealed.

**Sec. V-11. 36 MRSA §5244,** as amended by PL 1997, c. 24, Pt. C, §12 and as affected by §16, is further amended to read:

**§5244. Combined report**

The combined report required by section 5220, subsection 5, must include, both in the aggregate and by corporation, a list of the federal taxable income, the modifications provided by section 5200-A, the ~~property, payroll and~~ sales in Maine and everywhere as defined in chapter 821 and the Maine net income of the unitary business. Neither the income nor the ~~property, payroll and~~ sales of a corporation that is not required to file a federal income tax return may be included in the combined report.

**Sec. V-12. Application.** Those sections of this Part that amend the Maine Revised Statutes, Title 36, sections 5211 and 5244 apply to tax years beginning on or after January 1, 2007.

## SUMMARY
## PART V

This Part amends the 3-factor corporate income apportionment formula to a single factor, based upon sales, effective for tax years beginning on or after January 1, 2007.

**2008-2009 Biennial Budget Bill**

**Revenue / Transfer Form**

**Joint Standing Committee on Appropriations and Financial Affairs**

**Department/Agency Name:** <u>Department of Administrative and Financial Services</u>

**Program Name:** <u>Maine Revenue Services</u>

**Account Number(s):** <u>010 18F 0002 07</u>

**Part and Section:** <u>V</u>

| | FY 2007-08 | FY 2008-09 |
|---|---|---|
| **Revenue or Balance Transfer Increase / (Decrease):** | **$6,195,641** | **$5,403,404** |

**Description of Initiative:**

The revenue increase results from amending the three-factor corporate income tax apportionment factor to a single factor, based on sales, effective for tax years beginning on or after January 1, 2007

**Does this Initiative have an impact on the 2010-2011 Biennium?** (Yes) X (No)

The revenue impact is on-going.

## PART II

**Sec. II-1. Tax expenditures.** In accordance with the Maine Revised Statutes, Title 5, section 1666, funding is continued for each individual tax expenditure, as defined in the Maine Revised Statutes, Title 5, section 1664, reported in the budget document submitted by the Governor on January 5, 2007.

## SUMMARY

## PART II

This Part, in accordance with the Maine Revised Statutes, Title 5, section 1666, authorizes the continuation of funding for each individual tax expenditure reported in the budget document submitted by the Governor on January 5, 2007.

TESTIMONY SIGN UP SHEET

JOINT STANDING COMMITTEE ON APPROPRIATIONS AND FINANCIAL AFFAIRS
&
JOINT STANDING COMMITTEE ON TAXATION

DATE: March 6, 2007

PLEASE PRINT

LD: 499

| NAME | TOWN/AFFILIATION | FOR | AGAINST | NEITHER FOR NOR AGAINST | EMAIL ADDRESS OR PHONE |
|---|---|---|---|---|---|
| Rebecca Wyke, Commissioner | Dept. of Admin. & Financial Services | X | | | |
| Jerome Gerard, Acting Tax Assessor | Maine Revenue Services | X | | | |
| Sen. Roger Sherman | Aroostook County/Houlton Jobs | | X | | |
| Sen. Roger Sherman | Aroostook County/ Cigarette Tax | X | | | |
| Rep. Richard Cleary, Esq. | Houlton | | X | | |
| Rep. Patricia Sutherland | Aroostook County | | X | | |
| Dana Graham | MSEA President | | X | | |
| Jon McLaughlin | Houlton | | X | | |
| Walt Elish | Houlton | | X | | welish@APPME.org |
| Stan Gimish | Houlton | X | | | |
| Doug Hazlett | Houlton Town Manager | | X | | Town.manager@houlton-Maine.com |
| Pamela L. Beal | South Portland | | X | | 207-767-2737 |
| Sheila Evans | Chelsea | X | | | |
| Scott Moody | ME Heritage Policy | | | X | jsmoody@mainepolicy.org |
| Gordon Smith, Exec. VP | Maine Medical Association | X | | | gsmith@mainemed.com |
| Gena Canning | Pine State Trading | | X | | |

## TESTIMONY SIGN UP SHEET

## JOINT STANDING COMMITTEE ON APPROPRIATIONS AND FINANCIAL AFFAIRS
## &
## JOINT STANDING COMMITTEE ON TAXATION

DATE: March 6, 2007

PLEASE PRINT

LD: 499

| NAME | TOWN/AFFILIATION | FOR | AGAINST | NEITHER FOR NOR AGAINST | EMAIL ADDRESS OR PHONE |
|---|---|---|---|---|---|
| Becky Smith | Maine Coalition on Smoking/Health | X | | | |
| DeniseWhitley | American Heart Association | X | | | |
| Dervilla McCann, MD | | X | | | |
| Jon Bubier, Owner | Ron's Market | | X | | |
| Megan Hannan | American Cancer Society | X | | | |
| Chris Jackson | MODA/C-Store Council | | X | | |
| Ed Miller | American Lung Association | X | | | |
| Jinger Duryea, President | C.N. Brown Company | | X | | jingerd@cnbrown.com |
| Maryanne Alhamdany | Friendly Discount | | X | | malhamdany@yahoo.com |
| Craig Christopher | Christopher Wholesale | | X | | |
| Stan Ginish | Houlton | X | | | |
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**TESTIMONY**
**OF**
**REBECCA WYKE, COMMISSIONER**
**DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES**

Before the Joint Standing Committees on
Appropriations and Financial Affairs and Taxation

Hearing Date: March 6, 2007

**"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government of the Fiscal Years Ending June 30, 2008 and June 30, 2009."**

Senators Rotundo and Perry, Representatives Fischer and Piotti, and Members of the Joint Standing Committees on Appropriations and Financial Affairs and Taxation, my name is Rebecca Wyke and I am the Commissioner of the Department of Administrative and Financial Services. I am here to present testimony in support of those Departmental items presented in the Biennial Budget for the Maine Revenue Service.

The primary responsibility of the Maine Revenue Service (MRS) is the collection of tax revenues necessary to support Maine State Government in accordance with state tax law. Subsidiary responsibilities of MRS include: 1) the oversight of municipal tax administration in order to assist municipalities and to provide uniformity in the administration of local taxes throughout the state; and 2) the administration of various tax relief programs for taxpayers pursuant to Maine law.

## BUREAU OF REVENUE SERVICES FUND

The **Part A** request for the Bureau of Revenue Services Fund may be found on **page 13-7 of the Committee Copy, Page A-10 of the Budget document and on page 9, line 4 of the LD.**

The Bureau of Revenue Services Fund is an internal services fund that derives revenues from the provision of imaging, scanning, debt collection and administrative services to other state agencies.

The **Baseline Budget request** continues operations at the current level. The request for allocation is $150,000 for both FY 08 and FY 09. There are no initiatives for this program.

## COUNTY TAX REIMBURSEMENT

The **Part A** request for the County Tax Reimbursement program may be found on **page 13-9 of the Committee Copy, Page A-13 of the Budget Document and on page 12, line 5 of the LD.**

The County Tax Reimbursement program ensures that revenue collected from taxpayers in the Unorganized Territory for motor vehicle and watercraft excise tax is used to provide services to the Unorganized Territory Tax District.

The **Baseline Budget request** continues operations at the current level. The request for Other Special Revenue allocation is $990,000 for both FY08 and FY09.

The single **initiative** increases the allocation for the Other Special Revenue by $49,500 in FY08 and $101,475 in FY09.

## ELDERLY TAX DEFERRAL PROGRAM

The **Part A** request for the Elderly Tax Deferral Program may be found on **page 13-11 of the Committee Copy, Page A-15 of the Budget Document and on page 14, line 15 of the LD.**

The Elderly Tax Deferral Program enabled qualifying elderly Maine resident homeowners to defer payment of "homestead" property taxes. This program, which by law is no longer open to new participants, was intended to reduce the incidence of elderly persons being displaced from their homes.

The **Baseline Budget request** continues operations at the current level. The allocation request is $41,923 for both FY08 and FY09.

The single **initiative** reduces the allocation by $11,923 in FY 08 and $12,923 in FY 09 due to a decline in the number of participants.

## HOMESTEAD PROPERTY TAX EXEMPTION

## MANDATE REIMBURSEMENT

The **Part A** request for the Homestead Property Tax Exemption – Mandate Reimbursement program may be found on **page 13-13 of the Committee Copy, Page A-21 of the Budget Document and on page 19, line 29 of the LD**.

The mandate reimbursement is required by law to offset 90 percent of the cost incurred by municipalities to administer the local property tax exemption program for certain homestead property of qualified Maine residents.

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $25,600 for both FY08 and FY09.

The single **initiative** increases the appropriation by $5,400 for both FY 08 and FY 09 to accommodate an anticipated increase in municipal homestead property tax exemption applications as a result of an active real estate market and municipal re-evaluations.

## HOMESTEAD PROPERTY TAX EXEMPTION REIMBURSEMENT

The **Part A** request for the Homestead Property Tax Exemption Reimbursement program may be found on **page 13-15 of the Committee Copy, Page A-21 of the Budget Document and on page 20, line 18 of the LD.**

The Homestead Property Tax Exemption Reimbursement program offsets the effect on the local property tax burden arising from the municipal exemption provided for the homestead of qualified residents that can certify ownership and permanent residency in Maine for the 12 months preceding the April 1st application date.

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $36,267,826 for both FY08 and FY09.

The single **initiative** reduces the appropriation by $7,661,235 in FY08 and $7,191,428 in FY09 due to an overall reduction in statewide property tax rates.

## MAINE ASTHMA AND LUNG DISEASE RESEARCH FUND

The **Part A** request for the Maine Asthma and Lung Disease Research Fund may be found on **page 13-17 of the Committee Copy, Page A-24 of the Budget Document and on page 24, line 25 of the LD.**

The **Baseline Budget request** continues operations at the current level. The allocation request is $14,648 in both FY08 and FY09. There are no initiatives for this program.

The **Baseline Budget request** will be withdrawn in the change package. The cost to initiate this tax check-off program was $14,648 in the first year and it has been determined that any ongoing costs can be absorbed within existing resources.

## BUREAU OF REVENUE SERVICES

The **Part A** request for the Bureau of Revenue Services may be found on **page 13-19 of the Committee Copy, Page A-28 of the Budget Document and on page 27, line 25 of the LD.**

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $33,372,787 in FY08 and $34,047,531 in FY09. The request for Highway Fund appropriation (informational only) is $253,590 in FY08 and $257,726 in FY09. The request for Federal Expenditures Fund allocation is $5,000 in both FY08 and FY09. The request for Other Special Revenue Funds allocation is $3,622,453 in both FY08 and FY09.

There are twelve initiatives for this program. The **first initiative** provides a General Fund appropriation of $336,959 in FY08 and $349,149 in FY09 to meet contractual obligations for temporary personnel contracts used during the tax season to handle and process tax returns and deposit revenues in a timely manner.

The **second initiative** provides a General Fund appropriation of $300,000 in FY09 to update econometric database information. Approximately every 2 years federal data from 1040 returns is updated and made available to the state. Funds are required for consulting services to ensure that the information used in revenue forecasting is current.

The **third initiative** provides a General Fund appropriation of $2,281,261 in both FY08 and FY09 for the debt service on the Maine Revenue Integrated Tax System (MERITS) project authorized by Public Law 2005, chapter 519, Part O, section O-1 which provided for the financing of $14,000,000 over a maximum of 7 years.

The **fourth initiative** provides a General Fund appropriation of $57,638 in FY08 and $59,368 in FY09 to contract for additional collection services. Currently one contractor position has responsibilities in this area. It is anticipated that doubling the resources assigned to otherwise uncollectible cases would net additional General Fund undedicated revenue of $237,000 annually.

The **fifth initiative** provides a General Fund appropriation of $80,162 in FY 08 and $84,792 in FY 09 for increased legal services provided by the Office of the Attorney General for out-of-state judgment work, injunctions and lien enforcement. It is estimated that this initiative will generate additional General Fund undedicated revenue of $479,688 annually.

The **sixth initiative** increases the allocation for Other Special Revenue Funds by $860,947 in FY08 and $866,047 in FY09 to fund current contractual obligations relating to tax debt collections. The increase in the allocation is needed to compensate vendors for the corresponding increase in collection activity.

The **seventh initiative** transfers 2 Senior Revenue Agent positions and allocates Personal Services funding for an additional 5.3 full-time equivalent positions and related All Other funds from the General Fund to the Highway Fund. Currently, the General Fund is reimbursed by the Highway Fund for the services provided by these positions. This initiative more properly accounts for the current Highway Fund expenses related to the collection of fuel taxes. The initiative transfers $655,638 in FY08 and $678,656 in FY09 from the General Fund to the Highway Fund and reduces General Fund undedicated revenue from the Highway Fund by $690,000 annually.

The **eighth initiative** provides a General Fund appropriation of $210,869 in FY08 and $501,032 in FY09 for the management and maintenance of existing information technology applications. Examples of these costs include vendor support contracts, software licenses, equipment and equipment maintenance. These incremental costs are not attributable to the OIT consolidation or an increase in OIT rates.

The **ninth initiative** eliminates one District Tax Audit Manager position and one Office Associate II position and related All Other to achieve General Fund savings of $174,661 in FY08 and $177,973 in FY09 from the closure of the Bangor office of the Maine Revenue Service. Services currently performed at this location will be transferred to the Main Office in Augusta as part of a Bureau-wide consolidation.

The **tenth initiative** eliminates 2 Senior Tax Examiner positions, 9 Tax Examiner positions, 2 Office Assistant II positions and one Office Associate II position and related All Other to achieve General Fund savings of $812,848 in FY08 and $842,702 in FY09 from the closure of the Houlton office of the Maine Revenue Service. Services currently performed at this location will be transferred to the Main Office in Augusta as part of a Bureau-wide consolidation.

The **eleventh initiative** provides a General Fund appropriation $539,925 in FY08 and $529,500 in FY09 to establish one Tax Section Manager position, 3 Senior Tax Examiner positions and 4 Tax Examiner positions and related All Other funds at the Main Office in Augusta to carry out the work currently performed by the Bangor and Houlton offices. The same work can be performed more efficiently with one half the staff and at approximately one half the cost if consolidated at the Main Office location.

The **twelfth and final initiative** reduces the General Fund appropriation by $356,109 for both FY08 and FY09 from savings achieved by reducing computer consulting expenditures, eliminating a law school intern program, relocating the Taxpayer Service Center from the Muskie Federal Building to the Main Office, and other efficiencies.

## SNOW GROOMING PROPERTY TAX EXEMPTION REIMBURSEMENT

The **Part A** request for the Snow Grooming Property Tax Exemption Reimbursement program may be found on **pages 13-30 of the Committee Copy, Page A-32 of the Budget Document and on page 33, line 24 of the LD.**

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $18,565 for both FY08 and FY09 to reimburse municipalities 50% of the property tax revenue loss as a result of the exemption for snow grooming equipment registered with the Department of Inland Fisheries and Wildlife. There are no initiatives for this program.

## TREE GROWTH TAX REIMBURSEMENT

The **Part A** request for the Tree Growth Tax Reimbursement program may be found on **pages 13-32 of the Committee Copy, Page A-38 of the Budget Document and on page 38, line 15 of the LD.**

The Tree Growth Reimbursement Program helps moderate property tax rates for municipalities that experience reduced property tax evaluations due to classified forest lands. Forty percent of Unorganized Territory revenue is derived from owners of forestland classified under the Tree Growth Tax Law.

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $5,400,000 for both FY08 and FY09.

The single **initiative** increases the request for appropriation by $200,000 in FY08 and $300,000 in FY09 to provide additional funding for tree growth tax reimbursements for cities, towns and plantations due to a growing increase in the amount of reimbursements requested.

## VETERANS TAX REIMBURSEMENT

The **Part A** request for the Veterans Tax Reimbursement program may be found on **pages 13-34 of the Committee Copy, Page A-39 of the Budget Document and on page 39, line 25 of the LD.**

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $895,000 for both FY08 and FY09.

The single **initiative** proposes to reduce the request for appropriation by $95,000 in FY08 and $70,000 in FY09 to reflect the decline in claims by veterans due to the reduction in statewide property tax rates, coupled with a demographic decrease in the number of veterans in Maine.

## WASTE FACILITY TAX REIMBURSEMENT

The **Part A** request for the Waste Facility Tax Reimbursement program may be found on **pages 13-36 of the Committee Copy, Page A-39 of the Budget Document and on page 40, line 17 of the LD.**

The **Baseline Budget request** continues operations at the current level. The request for General Fund appropriation is $5,950 in both FY08 and FY09.

The single **initiative** increases the request for appropriation by $3,050 in FY08 and $4,050 in FY09 due to an increase in the number of claims for reimbursement. The eligible facilities provide a safe depository for animal wastes, protecting Maine's rivers, streams and groundwater from contamination.

## LANGUAGE SECTION

## PART S

**Part S** may be found on **pages 13-38 of the Committee Copy, Page L-10 of the Budget Document and on page 591, line 21 of the LD.** Part S delays the increase from 5.1% to 5.2% in municipal revenue sharing until July 1, 2009. Postponing the increase in state-municipal revenue sharing will result in increased General Fund revenues of $2,646,366 in FY08 and $2,737,527 in FY09.

## PART T

**Part T** may be found on **pages 13-40 of the Committee Copy, Page L-11 of the Budget Document and on page 591, line 28 of the LD.** Part T increases the tax on cigarettes and tobacco products effective July 1, 2007 as follows: increases the tax per cigarette from 100 mills to 150 mills (or per pack of 20 cigarettes from $2.00 to $3.00); increases the tax on smokeless tobacco from 78% to 117% of the wholesale price; and increases the tax on cigars and other smoking tobacco from 20% to 30% of the wholesale price. The resulting increase to General Fund revenue is $68,296,528 in FY08 and $68,056,331 in FY09.

## PART U

**Part U** may be found on **pages 13-43 of the Committee Copy, Page L-13 of the Budget Document and on page 593, line 15 of the LD.** Part U continues the delay of the educational attainment and recruitment credit until January 1, 2009. This program was passed by the Legislature in 2002, but has never been implemented for lack of funds. The increase to General Fund revenue from the delay of this credit is $1,515,835 in FY08 and $3,087,625 in FY09.

## PART V

**Part V** may be found on **pages 13-46 of the Committee Copy, Page L-14 of the Budget Document and on page 595, line 3 of the LD.** Part V amends the three-factor corporate income tax apportionment formula to a single factor, based on sales, effective for tax years beginning on or after January 1, 2007. Revenues to the General Fund are anticipated to increase by $6,195,641 in FY08 and $5,403,404 in FY09.

## PART II

**Part II** may be found on **page 13-49 of the Committee Copy, Page L-21 of the Budget Document and on page 601, line 34 of the LD.** This language, already adopted in the FY07 Supplemental Budget, deals exclusively with the tax expenditure report you will find in Part II of the FY08/09 Biennial Budget. This provision requires the Administration to include in the budget document the estimated loss in revenue associated with the various tax expenditure programs provided for in Maine statutes. Deliberations of the Budget Reform Commission included several discussions about moving this requirement out of the language section of the biennial budget and instead including it as an appendix in the budget overview that accompanies the larger budget document. The legislation that implemented the budget reform recommendations neglected to include that change.

## Part MM

**Part MM–118** may be found on **page 13-4 of the Committee Copy, page L-53 of the Budget Document and on page 667, line 8 of the LD.** Part MM requires each school administrative unit to provide assessment reductions to member municipalities that result in property tax relief equal to at least 90%

of the increase in the State's contribution to general purpose aid for local schools.

That concludes my testimony on items for the Department of Administrative and Financial Services, Maine Revenue Services. I would be pleased to answer any questions you may have at this time.

**TESTIMONY**
**OF**
**REBECCA WYKE, COMMISSIONER**
**DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES**

Before the Joint Standing Committee on Appropriations and Financial Affairs
And the Joint Standing Committee on Taxation

Hearing Date: March 6, 2007

**"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government of the Fiscal Years Ending June 30, 2008 and June 30, 2009."**

Senators Rotundo and Perry, Representatives Fischer and Piotti, and Members of the Joint Standing Committees on Appropriations and Financial Affairs and Taxation, my name is Rebecca Wyke and I am the Commissioner of the Department of Administrative and Financial Services. I am here to present testimony in support of those Departmental items presented in the Biennial Budget for the State Board of Property Tax Review.

PROPERTY TAX REVIEW BOARD

The **Part A** request for the State Board of Property Tax Review may be found on **page 13-1** of the **Committee Copy, Page A-475** of the **Budget Document** and on **page 516, line 18 of the LD.**

The State Board of Property Tax Review exists to hear and determine tax abatement appeals relating to the tree growth law; the farm and open space law; and property valuations. The 15 member board is appointed by the Governor and equally divided among attorneys, real estate brokers, engineers, retired assessors and public members who serve a term of 3 years. The board annually elects a chair and secretary.

The **Baseline Budget request** for this program continues operations at the current level. The request for General Fund appropriation is $115,418 for FY08 and $116,547 for FY09.

The single **initiative** eliminates one part-time Office Associate II position achieving savings to the General Fund of $18,989 in FY08 and $20,118 in FY09 and reduces General Fund headcount by one half of a position. This position currently serves as Secretary to the Board. The duties of this position will be absorbed by existing staff in the Department of Administrative and Financial Services.

That concludes my testimony on items for the State Board of Property Tax Review. I would be happy to answer any questions you may have at this time.

JOHN ELIAS BALDACCI
GOVERNOR

STATE OF MAINE
MAINE REVENUE SERVICES
24 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0024

ADMINISTRATIVE & FINANCIAL SERVICES
REBECCA M. WYKE
COMMISSIONER

MAINE REVENUE SERVICES
JEROME D. GERARD
ACTING EXECUTIVE DIRECTOR

# MEMORANDUM

**TO:** **Rebecca M. Wyke, Commissioner, DAFS**

**FROM:** **Jerome D. Gerard**

**DATE:** **January 5, 2007**

**SUBJECT:** **Tax Relief and Health Care Act of 2006**

---

## I. Introduction

On December 20, 2006, President Bush signed into law the Tax Relief and Health Care Act of 2006 (the "Act"). The Act, which received widespread bipartisan support in both the House and Senate, includes an extension of certain expiring tax provisions, energy tax provisions, health savings account modifications, and other tax breaks.

The purpose of this Memorandum is to briefly describe those parts of the Act that could have more than a negligible revenue impact on Maine's General Fund and that are either new tax provisions or extensions of provisions that the Governor has supported in prior years. For each such provision, the Memorandum also includes our estimate of the revenue impact of conformity.

## II. Teacher Classroom Expense Deduction (Act § 108; IRC § 62)

### A. Description

The Act extends, through December 31, 2007, the above-the line deduction of up to $250 annually for expenses paid or incurred by an eligible educator for books, supplies, computer equipment and other supplementary materials used by the educator in the classroom. The expenses must be paid or incurred after December 31, 2005. For these purposes, an eligible educator is a Kindergarten through 12th grade teacher, principal, aide or counselor working in a school for more than 900 hours per school year.

In past years, Maine has conformed to this federal deduction.



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### B. Anticipated Revenue Impact in Maine

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| -$92,500 | -$277,500 | $0 | $0 | $0 |

## III. 15 Year Straight-Line Depreciation for Restaurant Improvements and Qualified Leasehold Improvements (Act § 113; IRC § 168)

### A. Description

The Act extends, through December 31, 2007, the special 15 year straight-line recovery period for qualified restaurant property and qualified leasehold improvements. Qualified restaurant property generally means improvements to a building if the improvement is placed in service more than 3 years after the date the building was first placed in service and more than 50% of the building's square footage is devoted to preparation of and on-premises seating for the consumption of prepared food. Qualified leasehold improvements are generally defined as improvements to the interior of a building made by either the lessor or the lessee if the improvements are placed in service more than 3 years after the date the building was first placed in service and ownership of the building is retained by the lessor (there are some exceptions provided for death, changes in the business organization, and certain tax-deferred exchanges). This modified depreciation rule is effective for property placed in service after December 31, 2005. Without this special rule, depreciation of the type described herein would have to be recovered over 39 years.

In past years Maine has conformed to this special federal depreciation provision.

### B. Anticipated Revenue Impact in Maine

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| -$105,495 | -$416,706 | -$395,871 | -$376,077 | -$357,274 |

## IV. Charitable Contributions of Computer Property (Act § 116; IRC § 170)

### A. Description

The Act extends the current enhanced deduction for computer technology and equipment to contributions made during any taxable year beginning after December 31, 2005, and before January 1, 2008. Under the Act, property assembled by the taxpayer, in addition to property constructed by the taxpayer, is eligible for either the enhanced deduction relating to computer technology and equipment or to scientific property used for research. The deduction is equal to the lesser of (1) the donor's basis in the property increased by 50% of the appreciation thereon; or (2) 200% of the donor's basis in the property. In the absence of this provision, the value of the deduction would generally be limited to the property's basis.

In past years Maine has conformed to this enhanced federal charitable deduction provision.



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## B. Anticipated Revenue Impact in Maine

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| -$19,270 | -$144,529 | -$28,906 | $0 | $0 |

# V. Health Savings Accounts (Act Title III; IRC §§ 106, 223)

## A. Description

The Act modifies the rules for Health Savings Accounts ("HSAs") in a number of ways, including:

- **Increased Contribution Limits**
  Beginning in 2007, the maximum annual contribution to an HSA is $2,850 for an eligible individual with self-only coverage, or $5,650 for an eligible individual with family coverage. These amounts also are increased annually for COLAs. For individuals who have attained age 55 by the end of the taxable year, the annual contribution limit is increased by $800 in 2007, $900 in 2008, and $1,000 in 2009 and thereafter. In contrast with previous years, starting in 2007, the maximum deductible contribution is not limited to the eligible individual's annual deductible amount under the high deductible health plan.

- **Part Year Account Holders**
  Beginning in 2007, an individual who is eligible during the last month of a taxable year is treated as having been eligible for all prior months during the taxable year and, thus, is allowed to make contributions for months before the individual was enrolled in a high deductible health plan.

Although these changes to the HSA rules are new, when federal HSA legislation was first enacted, Maine did not conform to the federal deduction. Last year, however, legislation was passed and signed by the Governor to conform beginning in the 2006 tax year to the federal HSA deductions.

## B. Anticipated Revenue Impact in Maine

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| -$6,470 | -$22,646 | -$35,975 | -$42,963 | -$47,881 |

# VI. Itemized Deductions for Personal Mortgage Insurance

## A. Description

The Act provides that premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with acquisition indebtedness on a qualified residence is deductible under the same rules as residential mortgage interest.



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No deduction is allowed for any amount paid or accrued after December 31, 2007, or properly allocable to any period after that date. In addition, under the Act, the amount allowable as a deduction is phased out ratably by 10% for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000 ($500 and $50,000, respectively, in the case of a married individual filing a separate return). Accordingly, the deduction is not allowed if the taxpayer's adjusted gross income exceeds $110,000 ($55,000 in the case of married individual filing a separate return).

The deduction is effective for mortgage insurance contracts issued after December 31, 2006 and amounts paid or accrued before January 1, 2008 or properly allocable to any period prior to such date.

This deduction is new; accordingly, this is Maine's first opportunity to decide whether or not to conform.

### B. Anticipated Revenue Impact in Maine

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| $0 | $128,001 | $0 | $0 | $0 |

## VII. Total Cost of Conformity

If Maine elects to conform to all of the federal changes described in this Memorandum, the total revenue impact per fiscal year would be as follows:

| FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 |
|---|---|---|---|---|
| -$223,736 | - $989,382 | -$460,752 | -$419,041 | -$405,154 |

## VIII. Other Tax Extensions in the Act

The Act extended a number of federal tax benefits from which Maine has historically decoupled, as follows:

- Deduction for state and local sales taxes (see 36 MRSA § 5125(3)(A));
- Higher education tuition and related expenses deduction (see 36 MRSA § 5122(1)(Q)); and
- Work opportunity credit - disallowance of related wage expense deduction (see 36 MRSA §§ 5122(2)(B) and 5200-A(2)(C)).

We have not addressed these provisions in the Memorandum on the supposition that non-conformity remains the Administration's policy position. Please contact me if you would like further information on any of those provisions.



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Senator Rotundo, Representative Fischer, members of the Appropriations and Financial Affairs Committee and members of the Taxation Committee. My name is Roger Sherman. I am the Senator for District 34 which includes Houlton. I have been asked to read this prepared statement today, on behalf of the staff of the Houlton office of the Maine Revenue Services, to put a human face on the potential closing of this office.

"As you know, the Houlton office was opened in October 1999 serving both the Sales Tax and Income Tax Divisions of MRS. Since early 2000, we have been part of the Compliance Division. Our primary function is to conduct Sales & Use Tax and Income Tax desk audits, to provide back up phone assistance to the Income Tax Division and to serve as a quick response team that can shift gears and refocus easily on varying tasks and projects. The staff performs 30 different audit projects many of which have only been handled by the Houlton staff and others that have been handled exclusively by Houlton for the past 7 years. We have generated more than $52.8 million in assessments.

In addition to the regular desk audit functions, the staff provides daily back up assistance on the Taxpayer Assistance Line averaging 11% of the calls per year with peak times increasing to as high as 43%. As a quick response team, the staff has been assigned to assist with projects including collections, the Amnesty program, the Cigarette Tax project and processing returns, among others. The work on these special projects often takes the staff away from their regular desk audit tasks, but they continue to average $8 million in assessments per year in addition to $2.7 million in collections.

The success of the Houlton office is attributable to the well trained and uniquely cross trained employees. The staff shows the traditional Aroostook County work ethic and dedication. We have a varied background that brings a wealth of real life experience to these jobs. The majority of the 14 employees came to state employment from the private sector. The professions included administration, banking, legal, tax preparation, retail, agriculture and medical with several individuals being business owners and chief executives. The staff has a strong customer service background with experience in taxes and dealing with the public .... both essential skills in the work of Maine Revenue Services. The Houlton team happily takes on the special projects that are assigned to them and enjoys the variety that comes with being a quick response unit. The experience and knowledge gained from working on these varied projects adds to their effectiveness and thoroughness in their regular audits, which translates into revenue for the state.

The dedication of the Houlton staff is evidenced in our low turnover rate. We have had only 3 employees leave the office in the nearly 7½ years we have been open. In terms of Tax Examiners in our office, the newest Tax Examiner has been with us for over 5 years. Compare this to the Augusta office where only 45% of Tax Examiners have been in that position for more than 3 years – a symptom of a lower unemployment rate in that area (see Attachment 1). The current staff in Augusta is very effective and well-trained. There are, however, an estimated 20 vacancies in MRS at this time. It is questionable that the work of the Houlton office could be absorbed by the current staff in Augusta, who are already working to capacity. With the difficulty in filling current vacancies, new positions are likely to stay vacant for extended periods or will be filled with inexperienced employees who will experience a lengthy learning curve. Either scenario will severely limit the states revenue production over the next 2 years.

We have employees from throughout the southern Aroostook region, some with a daily commute of over an hour. The staff looks at their jobs as long term positions and not as stepping stones. Most expected to retire at these jobs.
This raises an interesting point that should be made evident. With the elimination of these jobs, most of the Houlton staff will most likely have to return to the private sector. I am aware of no one who intends to seek positions in Augusta. This change back to private sector employment will have an adverse affect on the retirement earnings of the 14 individuals. Those who are vested in the Maine State Retirement System, which is the case for most of the Houlton employees, will lose the years worked for retirement credit under this system if they revert back to a system such as Social Security. They can leave their retirement in MSRS which will limit their Social Security at retirement or they can take the money out now, but would lose the 18.54% representing the state's contribution

toward their retirement. There are additional repercussions, which are detailed in our attachment (see Attachment 2).

As stated previously, most of the employees affected by the potential job eliminations intend to stay in the Houlton region. This is their home and their community. This is where their families are and where they have established their lives. They have made a decision to live in this area. Some must stay out of necessity and family obligations such as aging parents, care for extended family or spouse's employment. More than 2/3 of the Houlton employees are the primary household wage earners. However, in light of the area's 7.1% unemployment rate, it is likely that it will take some time to find new employment. Some may need to stay on unemployment or utilize state assistance programs, both of which represent a cost to the state. Those who find employment may have to settle for lower pay and/or a reduction of benefits such as health insurance.

We do recognize that the financial well-being of the state must be paramount in your decision making. We provide this more personal testimony in support of that to show that the Houlton office is an effective, efficient, well-run operation that is producing revenue for the state. There are quality trained employees in the Houlton office ready to continue these efforts. We believe the cost savings projected from this potential closing are insignificant in comparison to the likely loss of revenue when so many positions remain vacant in Augusta, a trend which is likely to continue. The Houlton office provides a substantial return on investment and can continue to do so. This is not a time to be jeopardizing the states revenue stream. We believe the most prudent decision at this point is to keep the Houlton office open with loyal, long-term employees who will continue to generate revenue for the state."

ATTACHMENT 1

# TAX EXAMINER

# RETENTION SCHEDULE

# BASED ON ATTACHED

# THREE YEAR HISTORY REPORT

# 2004 – JANUARY 2007

| | |
|---|---|
| <u>AUGUSTA</u> | <u>HOULTON</u> |
| 58 POSITIONS | 9 POSITIONS |
| 26/58 = 45%* | 9/9 = 100%* |

*EMPLOYMENT BEGAN PRIOR TO THE YEAR 2004

# TAX EXAMINER HISTORY BY POSITION NUMBER
## 2004 - JAN 2007

| ASSIGN DATE POSITION LAST ASSGND | TERMINATON DATE | POSITION NO | TERMINATION REASON | LENGTH OF EMPLOYMENT |
|---|---|---|---|---|
| | | 016300131 | | |
| | | | | |
| | 8/17/2004 | 016300161 | Resigned | |
| | 10/11/2004 | | Internal Transfer | |
| | 5/20/2005 | | Resigned | 7 MONTHS |
| 6/27/2005 | | | | 19 MONTHS * |
| | | | | |
| | 5/15/2006 | 016300221 | Transfer to DOT | |
| 8/28/2006 | | | | 5 MONTHS * |
| | | | | |
| | 2/9/2004 | 016300451 | promote to DFPS | |
| 5/3/2004 | | | | 32 MONTHS * |
| | | | | |
| | 5/3/2004 | 016300731 | internal transfer | |
| 5/10/2004 | | | | 32 MONTHS * |
| | | | | |
| | 11/7/2005 | 016300801 | transfer | |
| 9/5/2006 | 1/5/2007 | | resigned | 4 MONTHS |
| | VACANT | | | |
| | | | | |
| | | 016300831 | | |
| | | | | |
| | 9/20/2004 | 016302061 | Promotion | |
| 1/3/2005 | | | | 24 MONTHS * |
| | | | | |
| | 7/12/2004 | 016302401 | Promotion | |
| 9/20/2004 | | | | 28 MONTHS * |
| | | | | |
| | | 016302521 | | |
| | | | | |
| | 5/2/2004 | 016302581 | Promotion | |
| 9/20/2004 | | | | 28 MONTHS * |
| | | | | |
| | | 016303051 | | |
| | | 016303181 | | |
| | | 016303431 | | |
| | | | | |
| | | 016303441 | | |
| | 2/16/2004 | | transfer to DOL | |
| | 7/29/2005 | | resigned | 16 MONTHS |
| 8/15/2005 | | | | 17 MONTHS * |
| | | | | |
| | | 016303566 | | |
| | | 016303573 | | |
| | | 016303580 | | |
| | | | | |
| | 7/7/2006 | 016303595 | internal transfer | |
| 8/28/2006 | | | | 5 MONTHS * |
| | | | | |
| | | 016303639 | | |
| | | | | |
| | 8/27/2004 | 016303641 | resigned | |
| | 10/31/2005 | | resigned | 13 MONTHS |
| 1/3/2006 | | | | 12 MONTHS * |

KEY:
**UNHIGHLIGHTED AREA =**
**EXAMINER'S BEEN IN POSITION BEFORE 2004 & IS STILL THERE**

**HIGHLIGHTED AREA =**
**DISPLAYS CHANGES IN THAT POSITION SINCE 2004**

***STILL WORKING IN THIS POSITION**

# TAX EXAMINER HISTORY BY POSITION NUMBER
## 2004 - JAN 2007

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| | 8/15/2005 | **016303642** | transfer | | |
| 8/29/2005 | | | | 17 MONTHS | * |
| | | | | | |
| | | **016303672** | | | |
| | | **016303679** | | | |
| | | **016303680** | | | |
| | | **016303753** | | | |
| | | | | | |
| | 8/16/2004 | **016303757** | Promotion | | |
| 11/1/2004 | | | | 26 MONTHS | * |
| | | | | | |
| | 6/12/2006 | **016303775** | transfer | | |
| 7/17/2006 | | | | 6 MONTHS | * |
| | | | | | |
| | 6/1/2005 | **016303791** | retired | | |
| | 8/29/2005 | | transfer | | |
| 10/17/2005 | | | | 15 MONTHS | * |
| | | | | | |
| | | **016303795** | | | |
| | | | | | |
| | 7/14/2006 | **016303811** | resigned | | |
| 1/8/2007 | | | | NEW | * |
| | | | | | |
| | 5/30/2006 | **016303816** | resigned | | |
| 6/12/2006 | | | | 6 MONTHS | * |
| | | | | | |
| | | **016303817** | | | |
| | | | | | |
| | 9/26/2005 | **016303818** | transfer | | |
| 11/7/2005 | | | | 14 MONTHS | * |
| | | | | | |
| | 9/13/2004 | **016303819** | transfer to DOL | | |
| 10/18/2004 | | | | 27 MONTHS | * |
| | | | | | |
| | 9/20/2004 | **016303824** | internal transfer | | |
| | 10/11/2004 | | internal transfer | 12 MONTHS | |
| 10/25/2004 | | | | 27 MONTHS | * |
| | | | | | |
| | 4/29/2005 | **016303828** | retired | | |
| 5/30/2005 | | | | 20 MONTHS | * |
| | | | | | |
| | | **016303853** | | | |
| | | | | | |
| | 8/12/2004 | **016303854** | promotion | | |
| | 1/28/2005 | | resigned | 4 MONTHS | |
| 3/21/2005 | | | | 22 MONTHS | * |
| | | | | | |
| | | **016303866** | | HOULTON POS. | |
| | | **016303867** | | | |
| | | | | | |
| | 8/19/2004 | **016303868** | transfer | | |
| 10/12/2004 | | | | 27 MONTHS | |
| | | | | | |
| | | **016303871** | | HOULTON POS. | |
| | | **016303873** | | HOULTON POS. | |

# TAX EXAMINER HISTORY BY POSITION NUMBER
# 2004 - JAN 2007

| | | | | |
|---|---|---|---|---|
| | | 016303874 | | HOULTON POS. |
| | | 016303875 | | HOULTON POS. |
| | | 016303876 | | HOULTON POS. |
| | | 016303877 | | HOULTON POS. |
| | | 016303878 | | HOULTON POS. |
| | | 016303885 | | HOULTON POS. |
| | | | | |
| | 8/16/2004 | **016303887** | promotion | |
| | 10/23/2006 | | promotion | 23 MONTHS |
| 1/8/2007 | | | | NEW * |
| | | | | |
| | 6/28/2004 | **016303891** | promotion | |
| | 9/4/2006 | | promotion | 26 MONTHS |
| | | **VACANT** | | |
| | | | | |
| | | 016303892 | | |
| | | 016303893 | | |
| | | 016303894 | | |
| | | | | |
| | 2/21/2005 | **016303929** | promotion | |
| | 2/6/2006 | | promotion | 11 MONTHS |
| 7/10/2006 | | | | 6 MONTHS * |
| | | | | |
| | | 016303932 | | |
| | | 016303936 | | |
| | | | | |
| | 9/30/2005 | **016303937** | retired | |
| 12/19/2005 | | | | 13 MONTHS * |
| | | | | |
| | 6/18/2004 | **016303938** | resigned | |
| 8/23/2004 | | | | 29 MONTHS * |
| | | | | |
| | 2/1/2006 | **016303947** | resigned | EXPERIENCED |
| 4/18/2006 | | | re-hire | EXAMINER REHITED |
| | | | | |
| | 5/3/2004 | **016303948** | transferred | |
| 7/5/2004 | | | | 30 MONTHS * |
| | | | | |
| | 5/11/2004 | **016303949** | transferred | |
| 7/1/2004 | | | | 30 MONTHS * |
| | | | | |
| | | 016303950 | | |
| | | | | |
| | 1/23/2006 | **016303974** | transferred | |
| 5/8/2006 | | | | 7 MONTHS * |
| | | | | |
| | | 016303977 | | |
| | | | | |
| | 4/24/2006 | **016303978** | transferred | |
| 6/5/2006 | | | | 7 MONTHS * |

# MAINE REVENUE SERVICES HOULTON OFFICE TESTIMONY

## ATTACHMENT 2

*Repercussions Connected To Job Eliminations In The Houlton MRS Office*

• If one chooses a job which requires participation in the Maine State Retirement System (MSRS), there is no portability because the MSRS is an entity unto itself. If a person under this system loses their job as a result of budget cuts, they lose those years toward retirement. Most Houlton employees will effectively lose seven-plus years of retirement credit. This immediately puts the person behind when it comes to accumulating total years worked.

• MSRS years worked will not be counted under other systems such as Social Security. It is understood that no job is ever secure, but some retirement programs, like Social Security, are portable.

• It takes five years to be vested in MSRS. If one's job is cut and retirement age has not been reached, there are some choices, but not great ones.

  • One option if someone leaves a job participating in MSRS is to leave the money in the system until retirement age if one is vested. It will accrue interest compounded monthly with the interest rate being set by the legislature. The interest rate is subject to change

  • If the employee gets a non-MSRS job, he/she can choose to take his/her money out of the system. However, only the 6.5% portion of employee contributions plus interest may be withdrawn. The 18.54% contribution from the state is lost to the employee and remains in the system's coffers. Additionally, there will most likely be penalties for withdrawals.

• Should an individual return to state employment after withdrawing their portion, any "buy back" is very expensive and many times is prohibitive.

• Choosing to leave one's money in the MSRS and collect a pension at retirement age also comes with a price. Any retirement income from MSRS may trigger a Government Pension Offset (see Attachment 3). This law applies only to Social Security benefits received by a spouse or widow or widower. It will reduce that person's Social Security benefits by two-thirds of their government pension.

• If one has worked under Social Security/ his/her benefits may be reduced because of another provision of the law know as the Windfall Elimination Provision (see Attachment 4). There are some exceptions, but basically, unless thirty or more years of substantial earnings under Social Security have been met, this law will apply. It affects how the amount of retirement or disability benefits are calculated if a pension is received from work where Social Security taxes were not taken out of the pay. This results in a lower Social Security benefit.

ATTACHMENT 3

# Government Pension Offset

## A law that affects spouses and widows or widowers

If you receive a pension from a federal, state or local government based on work where you did not pay Social Security taxes, your Social Security spouse's or widow's or widower's benefits may be reduced. This fact sheet provides answers to questions you may have about the reduction.

## How much will my Social Security benefits be reduced?

Your Social Security benefits will be reduced by two-thirds of your government pension. In other words, if you get a monthly civil service pension of $600, two-thirds of that, or $400, must be deducted from your Social Security benefits. For example, if you are eligible for a $500 spouse's, widow's or widower's benefit from Social Security, you will receive $100 per month from Social Security ($500 – $400 = $100).

If you take your government pension annuity in a lump sum, Social Security still will calculate the reduction as if you chose to get monthly benefit payments from your government work.

## Why will my Social Security benefits be reduced?

Benefits we pay to wives, husbands, widows and widowers are "dependent's" benefits. These benefits were established in the 1930s to compensate spouses who stayed home to raise a family and who were financially dependent on the working spouse. But as it has become more common for both spouses in a married couple to work, each earned his or her own Social Security retirement benefit. The law has always required that a person's benefit as a spouse, widow, or widower be offset dollar for dollar by the amount of his or her own retirement benefit.

In other words, if a woman worked and earned her own $800 monthly Social Security retirement benefit, but she was also due a $500 wife's benefit on her husband's Social Security record, we could not pay that wife's benefit because her own Social Security benefit offset it. But, before enactment of the Government Pension Offset provision if that same woman was a government employee who did not pay into Social Security, and who earned an $800 government pension, there was no offset and we were required to pay her a full wife's benefit in addition to her government pension.

If this government employee's work had instead been subject to Social Security taxes, any Social Security benefit payable as a spouse, widow or widower would have been reduced by the person's own Social Security retirement benefit. In enacting the Government Pension Offset provision, Congress intended to ensure that when determining the amount of spousal benefit, government employees who do not pay Social Security taxes would be treated in a similar manner to those who work in the private sector and do pay Social Security taxes.

## When won't my Social Security benefits be reduced?

Generally, your Social Security benefits as a spouse, widow or widower will not be reduced if you:

- Are receiving a government pension that is not based on your earnings;
- Are a state or local employee whose government pension is based on a job where you were paying Social Security taxes
  —on the last day of employment and your last day was before July 1, 2004;

(over)

—during the last five years of employment and your last day of employment was July 1, 2004, or later (Under certain conditions, fewer than five years may be required for people whose last day of employment falls between July 1, 2004, and March 2, 2009.);

- Are a federal employee, including Civil Service Offset employee, who pays Social Security taxes on your earnings (A Civil Service Offset employee is a federal employee who was rehired after December 31, 1983, following a break in service of more than 365 days and had five years of prior civil service retirement system coverage.);
- Are a federal employee who elected to switch from the Civil Service Retirement System to the Federal Employees' Retirement System (FERS) on or before June 30, 1988. If you switched after that date, including during the open season from July 1, 1998, through December 31, 1998, you need five years under FERS to be exempt from the Government Pension Offset;
- Received or were eligible to receive a government pension before December 1982 **and** meet all the requirements for Social Security spouse's benefits in effect in January 1977; or
- Received or were eligible to receive a federal, state or local government pension before July 1, 1983, and were receiving one-half support from your spouse.

## What about Medicare?

Even if you do not receive cash benefits based on your spouse's work, you still can get Medicare at age 65 on your spouse's record if you are not eligible for it on your own record.

## Can I still get Social Security benefits from my own work?

The offset applies only to Social Security benefits as a spouse or widow or widower. However, your own benefits may be reduced because of another provision of the law. Contact us for the publication, *Windfall Elimination Provision* (Publication No. 05-10045).

## Contacting Social Security

For more information, visit our website at ***www.socialsecurity.gov*** or call toll-free **1-800-772-1213** (for the deaf or hard of hearing, call our TTY number, **1-800-325-0778**). We can answer specific questions and provide information by automated phone service 24 hours a day.

We treat all calls confidentially. We also want to make sure you receive accurate and courteous service. That is why we have a second Social Security representative monitor some telephone calls.



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ATTACHMENT 4

# Windfall Elimination Provision

2006

## Your Social Security retirement or disability benefits may be reduced

If you work for an employer who does not withhold Social Security taxes from your salary, such as a government agency or an employer in another country, the pension you get based on that work may reduce your Social Security benefits.

The "windfall elimination provision" affects how the amount of your retirement or disability benefits is calculated if you receive a pension from work where Social Security taxes were not taken out of your pay. A modified formula is used to calculate your benefit amount, resulting in a lower Social Security benefit.

## When your benefits may be affected

The windfall elimination provision primarily affects people who earned a pension from working for a government agency and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. It also may affect you if you earned a pension in any job where you did not pay Social Security taxes, such as in a foreign country.

For example, this provision affects Social Security benefits when any part of a person's federal service after 1956 is covered under the Civil Service Retirement System (CSRS). However, federal service where Social Security taxes are withheld (Federal Employees' Retirement System or CSRS Offset) will not reduce your Social Security benefit amounts.

Your Social Security will be reduced if:

- You reached 62 after 1985; or
- You became disabled after 1985; or
- You first became eligible for a monthly pension based on work where you did not pay Social Security taxes after 1985, even if you are still working.

## Why a different formula is used

Your Social Security benefits are reduced because Social Security benefits were intended to replace only a percentage of a worker's pre-retirement earnings. The way Social Security benefit amounts are figured, lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 55 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Before 1983, people who worked in jobs not covered by Social Security received benefits that were computed as if they were long-term, low-wage workers. They received the advantage of a higher percentage of benefits in addition to their other pension. Congress passed the windfall elimination provision to eliminate this advantage.

## How it works

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. This is a complex formula. If you do not understand it, let us know, and we will be happy to help you. We separate your average earnings into three amounts and multiply the amounts using three factors. For example, for a worker who turns 62 in 2006, the first $656 of average monthly earnings is multiplied by 90 percent; the next $3,299 by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or who became disabled in 1990 or later, the 90 percent factor is reduced to 40 percent.

(over)

| Year | Substantial earnings |
|---|---|
| 1937–1950 | $900 |
| 1951–1954 | $900 |
| 1955–1958 | $1,050 |
| 1959–1965 | $1,200 |
| 1966–1967 | $1,650 |
| 1968–1971 | $1,950 |
| 1972 | $2,250 |
| 1973 | $2,700 |
| 1974 | $3,300 |
| 1975 | $3,525 |
| 1976 | $3,825 |
| 1977 | $4,125 |
| 1978 | $4,425 |
| 1979 | $4,725 |
| 1980 | $5,100 |
| 1981 | $5,550 |
| 1982 | $6,075 |
| 1983 | $6,675 |
| 1984 | $7,050 |
| 1985 | $7,425 |
| 1986 | $7,875 |
| 1987 | $8,175 |
| 1988 | $8,400 |
| 1989 | $8,925 |
| 1990 | $9,525 |
| 1991 | $9,900 |
| 1992 | $10,350 |
| 1993 | $10,725 |
| 1994 | $11,250 |
| 1995 | $11,325 |
| 1996 | $11,625 |
| 1997 | $12,150 |
| 1998 | $12,675 |
| 1999 | $13,425 |
| 2000 | $14,175 |
| 2001 | $14,925 |
| 2002 | $15,750 |
| 2003 | $16,125 |
| 2004 | $16,275 |
| 2005 | $16,725 |
| 2006 | $17,475 |

| Years of substantial earnings | Percentage |
|---|---|
| 30 or more | 90 percent |
| 29 | 85 percent |
| 28 | 80 percent |
| 27 | 75 percent |
| 26 | 70 percent |
| 25 | 65 percent |
| 24 | 60 percent |
| 23 | 55 percent |
| 22 | 50 percent |
| 21 | 45 percent |
| 20 or less | 40 percent |

There are exceptions to this rule. For example, the 90 percent factor is not reduced if you have 30 or more years of "substantial" earnings in a job where you paid Social Security taxes. See the first table that lists the amount of substantial earnings for each year. If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to between 45 and 85 percent. To see the maximum amount your benefit could be reduced, visit ***www.socialsecurity.gov/retire2/wep-chart.htm***.

The second table shows the percentage used depending on the number of years of substantial earnings.

## Some exceptions...

The windfall elimination provision does not apply to survivors benefits. It also does not apply if:

- You are a federal worker first hired after December 31, 1983;
- You were employed on December 31, 1983, by a non-profit organization that did not withhold Social Security taxes from your pay at first, but then began withholding Social Security taxes from your pay;
- Your only pension is based on railroad employment;
- The only work you did where you did not pay Social Security taxes was before 1957; or
- You have 30 or more years of substantial earnings under Social Security.

## ...and a guarantee

If you get a relatively low pension, you are protected. The reduction in your Social Security benefit cannot be more than one-half of that part of your pension based on your earnings after 1956 from which Social Security taxes were not deducted.

## Contacting Social Security

For more information and to find copies of our publications, visit our website at ***www.socialsecurity.gov*** or call toll-free, **1-800-772-1213** (for the deaf or hard of hearing, call our TTY number, **1-800-325-0778**). We can answer specific questions from 7 a.m. to 7 p.m., Monday through Friday. We can provide information by automated phone service 24 hours a day.

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**Wrong time for Revenue Loss**

Good afternoon, Senator Rotundo, Representative Fisher and honorable members of the Appropriations and Financial Affairs Committee. Also, good afternoon to Senator Perry, Representative Piotti and the honorable members of the Taxation including my seatmate, the Honorable Representative from Saco, Representative Pilon. One particular topic of today's hearing is of utmost importance to me – that is the proposed closing of the Maine Revenue Service ("MRS") office in Houlton, Maine. This closing will terminate the employment of 14 hard-working and innovative employees. Obviously this budget proposal must be approved by the legislature following work by the Appropriations and Taxation committees. I'm pleased the budget process includes an opportunity for public comment and input from concerned legislatures, of which I am one.

I believe that now is not the time to close any Maine Revenue Service office that is generating substantial income for the State of Maine.

As a general matter, Maine Revenue Service is, as it name implies, a revenue generating entity. It is the agency that assesses and collects the revenue for the State. MRS has done well to reduce costs and operate efficiently. At some point, however, further reductions result in diminishing returns. The Houlton office in particular has assessed substantial income from its inception in 1999 to present. From October 1999 through January 2007 the Houlton Office has assessed revenue of $52.8 million with an annual average of $8 million. Although not tasked with the responsibility of collection, the Houlton office collected $2.7 million in the current fiscal year (from July 1, 2006 to December 31, 2006).

The Houlton Office staff is trained to process income tax, payroll tax, use tax, tax & rent (circuit breaker) and in auditing and collections. The Circuit Breaker program in particular is of note. Circuit Breaker has been touted as a good property value relief program. It is a complicated program and requires the assistance of trained staff. The Houlton staff handles up to 25% of the State-wide calls for taxpayer assistance for this vital program.

Further, the staff is ready, willing and able to engage in these tasks in "quick response" fashion. The Houlton staff is innovative and income generating. For example, this office performs 30 different audit projects in both income tax and use tax divisions. Further, there is an extremely low turnover rate for employees in the Houlton office. Since the office's inception in 1999 only three employees have left the office. Every time there are openings at the Houlton office they are sought by many highly trained applicants.

I would be glad to answer any questions that the committee members have, but there are individuals more knowledgeable than me that will follow. I do want to address one issue that has been raised and that is about security. Some have suggested that records at the

Houlton office could be vulnerable. Nothing could be further from the truth. Until the announced closing very few knew of the office's existence. Further the Houlton MRS office is located in a very secure building adjacent to a bank and a law office (Cleary Law Office to be precise). Law Enforcement response time is about 1 minute. The landlord, Phillip Jordan, received a letter of praise from the Department of Administration and Financial Affairs (DAFS) for his renovations to the existing building to make it a custom fit for the MRS office.

With the State of Maine seeking new sources of revenue, now is not the time to eliminate this innovative office or to terminate these outstanding employees. I urge my fellow legislatures to objectively review the facts and reverse this unfortunate decision. I encourage you to contact me if you have any further questions. Thank you for your time.

Richard C. Cleary

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Representative House District 8

Aroostook
Partnership for Progress

***A Public-Private Partnership Committed to Economic Growth in Northern Maine***

March 6, 2007

Senator Rotundo, Representative Fischer and Members of the Appropriations and Financial Affairs Committee and Taxation Committee:

Thank you for conducting this hearing and allowing me to speak on the issue of the proposed closing of the Maine Revenue Services Office in Houlton.

My name is Walt Elish and I am President of the Aroostook Partnership for Progress and a Board member of Leaders Encouraging Aroostook Development (LEAD).

The Partnership was created by the private sector about three years ago to focus on the County's outmigration issue primarily by working to retain and attract jobs and investment to Aroostook County. LEAD, also a private sector initiative, is comprised of about 100 members and is the County's business advocacy group.

I am here to ask that you consider keeping the Maine Revenue Services' Houlton Office open for a couple of reasons.

We believe that Aroostook County is at a critical junction. People are leaving, although at a slower rate, for one compelling reason. There are not enough of good paying jobs.

We believe that the best way to keep people in the County or bring them back is to first retain our existing businesses then work to attract new quality jobs. Every job in the County is important to our economic future especially the 14 currently at the Maine Revenue Services in Houlton, Maine. We cannot afford to lose any job in the County. Whether it's the 310 jobs at DEFAS Limestone or 14 jobs in Houlton, both are equally important to the County.

Aroostook County is making great strides to curb it's out migration problem. The rate of outmigration has decline and we even showed a slight increase in population. Development is occurring throughout the County.

**However, just when we begin to feel a little good about our efforts something like the announced closing of the Houlton office or the two MBNA facilities brings us back down to earth.**

Aroostook County and rural Maine experience this ebb and flow of job creation almost on a daily basis. In a larger community like Portland or Boston these announcements may not be too much of an issue.

But in a rural community like Aroostook County and Houlton, Maine the closing of a facility and ultimately the loss of good paying jobs can be devastating not only for the people losing their jobs........ but also on the psyche of the community.

In years past, losing 14 jobs or so may not have been a big issue.... after all it's only 14 jobs. However, it's a pattern that many of us know too well. 14 jobs here, 25 there, 50 over there......they all

c/o NMDC PO Box 779, Caribou, ME 04736-0779 Tel: 207-498-8731 Fax: 207-493-3108 www.APPme.org

add up and affect real people. People that want to stay in the County and raise their kids. The County is a great place to raise a family provided you have the economic means to do so.

I want to emphasize that we are not looking for a handout. Aroostook County is known for its ingenuity and hard work. We don't necessarily rely on the government to solve our problems. We tend to take matters into our own hands. It's also often said that when a person from the County goes down state seeking employment quite often the person is hired on the spot. The County's work ethic is second to none.

However, in this case, we need your help.

You have heard testimony about the economic reasons for keeping the Maine Revenue Services' office in Houlton open. I believe a case could be made for not only keeping the office open but increasing its responsibilities and number of employees.

The employees of the Houlton office have proven their worth and value over the years and should be rewarded. Hopefully, this committee and the legislature will agree with us and decide to not only keep the Houlton office open but also consider expanding its services. The Town of Houlton and employees of the Houlton office have proven their mettle and should be rewarded. We urge you to keep the Houlton office open.

Thank you for your time.

Walter J. Elish
President & CEO
Aroostook Partnership for Progress
P.O. Box 779
Caribou, ME 04736
498-8731

| | |
|---|---|
| TESTIMONY TO: | Joint Standing Committee on Appropriations & Taxation. |
| TESTIMONY SUBJECT: | Opposition to Proposed Closure of the Houlton Office of the Maine Revenue Services. |
| TESTIMONY DATE: | Wednesday, February 14, 2007 Rescheduled to Tuessday, March 6th |
| CONTACT INFORMATION: | Jon A. McLaughlin, Executive Director<br>Southern Aroostook Development Corporation<br>P.O. Box 783<br>Houlton, Maine 04730<br>(207) 521-0157<br>(207) 521-0176 FAX<br>sadc@aroostook21.com |

Senator Rotundo, Representative Fischer, members of the Appropriations and Financial Affairs Committee and members of the Taxation Commitee. My name is Jon McLaughlin and I am the Executive Director of the Southern Aroostook Development Corporation in Houlton. On behalf of my board of directors, I am here today to testify in opposition to the proposed closing of the Houlton office of the Maine Revenue Services as outlined in the Biennial Budget.

You have received letters outlining many economic and financial reasons and justifications for keeping the Houlton office open. You have heard, or will hear, speakers here today outlining economic, financial and emotional reasons as well. I would like to take just a few minutes to outline some personnel plusses with the Houlton office that, while it is hard to perhaps put a dollar figure to their benefit, no doubt would result in additional expenses to the Maine Revenue Services and ultimately the tax payers of the State of Maine, if the office is closed and additional personnel hired in Augusta.

First, there is the issue of labor turnover. The Houlton office has been open 7 ½ years. In this time there have only been 3 employees leave, two were clerical in nature and 1 was a tax examiner. Since 2004, in Houlton there has been 0% turnover in Tax Examiner positions. The Houlton office has been told that turnover in Augusta has averaged 23% /year for the 3 years - 2004 through 2006.

In fact, in recent weeks, the Houlton office has been contacted by Augusta five separate times, to see if any of the Houlton personnel would be transferring to Augusta because they are having a hard time to recruit tax examiners.

I am not trying to say that Houlton employees are better than Augusta employees, nor maybe even more loyal. One important factor in the longevity of the Houlton staff can be summed up as a product of a 7.1% unemployment rate in the Houlton Labor Market Area in December of 2006 versus a 4.2% rate for the same period in the Augusta Labor Market area.

Larger turnover in Augusta is due to several factors; employees transferring to other jobs within the Maine Revenue Services, to other departments in the state and higher paying jobs within the private sector located within the Augusta region. Houlton employees, for the most part, simply do not have these same opportunities.

Turnover is not a new phenomenon. In fact, on January 31, 2005, the Bureau of Human Resources approved a request by the Maine Revenue Services to raise all Tax Examiners at Step 1 –3 to Step 4 and all future hires would be at Step 4.



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Secondly, as you know, Houlton will be potentially losing the 14 current employees, 2 of which are Senior Tax Examiners, 3 are clerical and 9 are Tax Examiners. The Bangor & Augusta offices are also proposed to be closed, however not with such devastating results. All but two of the Bangor employees will continue to work as field auditors out of their homes and the Augusta office, while closing, will be moved into existing space elsewhere with no loss of employment. The Portland office will remain open with no loss of employees and, in fact, has just signed a new lease.

On the other hand, while eliminating Maine Revenue Services positions elsewhere, the budget proposes hiring 3 Senior Tax Examiners, 1 Tax Section Manager and 4 Tax Examiners for Augusta.

Senior Tax Examiners are supervisory positions that generally do only limited audit work. A Tax Section Manager generally oversees a unit and supervises Senior Tax Examiners.

As you can see this leaves the bread and butter of assessments and collections to the Tax Examiners.

The proposed closure of the Houlton office will result in 5 less Tax Examiners in the state..

Already knowing that there are always vacancies- presently there are 20 in various job titles - in the Augusta office, and knowing that Houlton has already been contacted with the hope that its employees will be transferring, it is safe to assume that these positions will not be easily filled.



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Not only will there be 5 less examiners, but when the 4 new positions are filled, it is likely going to be with inexperienced personnel that will not be extremely productive for quite some time. Houlton officials tell me that the rule of thumb is that an examiner is not at full capacity for almost a year.

On top of the elimination of 5 examiners, with the closing of Houlton there will be the elimination of 3 clerical staff. Among the many duties that clerical employees can provide is preliminary research on potential audits allowing Tax Examiners to be more productive in setting up the audits. They perform this duty for Tax Examiners in Houlton.

There are no clerical positions proposed to be added to the staff in the budget. With the proposed addition to the Augusta office of 4 new Tax Examiners, it is likely that existing clerical staff cannot adequately provide this preliminary research for the new examiners since the present clerical staff are, or should be, already working a maximum workload.

As a result, there will be 4 green recruits as Tax Examiners, that will already be less proficient than the tenured Houlton examiners, who will not be receiving the needed preliminary research that makes even an "experienced" examiner that much more productive.

This seems like a double whammy for increased tax assessments & collection potential for the tax payers of the State of Maine, at a time when every dollar of revenue is needed.

Thirdly, the Houlton office should be looked at for its important role as project overflow provider.



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For some examples, the Maine Revenue Services has a role to play in processing what are called "suspended tax returns". As I understand the process, these are returns that taxpayers have submitted and that Tax Examiners determine need additional information to process. The Maine Revenue Services has 90 days from April 15th to process these suspended returns. If not done within this time frame, the state has to pay interest on the refunds to the taxpayer retroactive back to April 15th.

The amount of these suspended returns can mount up and as it does, in order to minimize the amount of interest that will have to be paid out, Augusta has called on the Houlton office to help with this workload.

In 2006 alone, the Houlton office processed 7808 suspended returns from April thru July. It is estimated that the Houlton office, by processing these 7800 returns, saved the state $17,210 in interest per month. It is estimated that 3 or 4 months of interest was saved by Houlton processing these 7800 returns for a total savings to the tax payers of the State of Maine of between $52,000 & $69,000. This savings alone eats up almost 23% of the anticipated $273,000 savings that is proposed by eliminating the Houlton office.

In addition, the Houlton office has helped with a variety of other special projects such as assisting the non-filer unit during the Amnesty program, assisting with the Cigarette Tax expansion program, doing collections, working overtime to help with desk audits and various other projects. I have no estimate of the cost savings that this workload has provided to the state, but it no doubt adds a lot to the bottom line for the department.



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A very ironic twist, for an office that apparently has no justification to stay open, is the fact that the Houlton office has already this year been authorized to work overtime to help with the workload that is accumulating in Augusta.

The Houlton office handles an average of 10,000 calls per year on the taxpayer assistance phone line, representing 11% of the total calls. For the past 3 years, the average for the last week of the filing season has been 25% of the calls.

Fourthly, the Houlton staff is crossed trained to handle Income Tax, Payroll Taxes, Use Tax, Tax & Rent, processing, auditing & collections. How quickly can the new employees in Augusta ramp up to provide these services?

Fifth, I want to state that it was quoted in the Bangor Daily News that one of the reasons for eliminating the positions in Houlton, and adding the positions in Augusta, had to do with security and that having information in one central location is more secure.

Using this logic, the Portland field office needs to be closed and the field auditors at the Bangor office that will be working out of their homes if the Bangor office is closed as planned, will have to come to Augusta as well.

The Houlton office is closed to the public, always locked and is monitored by a security system. There are no signs outside alerting anyone to the fact that a Maine Revenue Services office is located in the building and there have been no security breaches in the 7 ½ years the office has been open.

Lastly, there are 307 current positions within the Maine Revenue Services and 20 vacant positions as of January12, 2007. If the state wants to save some personnel costs, I would contend that they should eliminate some of the vacant positions and keep the Houlton office open, an office where the Tax Examiner with the least amount of time on the job is 5 years and three of the employees have been honored as employees of the month by the Revenue Services. In fact, it might be beneficial to look at adding one or two additional tax examiner positions in Houlton.

Thank you for allowing me this time to speak to you.

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For the committee members' quick reference, a bulleted piece of this presentation is attached.



SOUTHERN AROOSTOOK DEVELOPMENT CORPORATION
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**Bulleted Information from Jon McLaughlin's Testimony**

- Houlton office open 7 ½ years.
- From 2004 thru 2006, turnover rate for Tax Examiners in Houlton was 0% & 23%/year avg. for Augusta
- Houlton office has been called five times in recent weeks by Augusta to see if Tax Examiners would transfer as they are having trouble recruiting in Augusta.
- As of December 2006, 7.1% unemployment in Houlton LMA & 4.2% for the Augusta Labor Market Area = one reason for low Houlton turnover.
- January 31, 2005, Bureau of Human Resources, at Maine Revenue Services request, raises starting wages for all Tax Examiners to Step 4 and raises all existing Tax Examiners from Step 1 thru 3 to Step 4 to keep existing examiners and help to recruit new examiners.
- Houlton to lose 14 jobs, 9, which are Tax Examiners with the "newest" tax examiner having been there for 5 years. Bangor to close, but only lose 2 employees, field examiners to continue working out of their homes. Augusta to close an office, but relocate to another office with no loss of employment. Portland to lose no employees and, in fact, just entered into a new lease.
- Proposed adding 4 Tax Examiner positions in Augusta for a "net" loss of 5 Tax Examiners and no mention of loss of productivity of the department as a result of 5 less positions has been mentioned.
- Clerical staff in Houlton provide preliminary research to the Tax Examiners in Houlton, which help make the examiners more productive in setting up the audit.
- No proposed clerical staff increase in Augusta to help do some of this preliminary research work for the "new" examiners..
- Houlton is also a project overflow provider.
- From April to July 2006, the Houlton office saved the State of Maine between $52,000 and $69,000 in interest payments on suspended returns. Processed 7800 returns in this time.
- The suspended tax interest savings for the Houlton office represents 23% alone of the proposed $273,000 personnel cost savings in shutting down the Houlton office.

- For the past 3 years, in the final week of the filing season, the Houlton office has handled 25% of the state calls on the Tax Payers Assistance Phone Line.
- Houlton office just OK'd for working O.T. to help Augusta workload.
- Houlton staff are cross trained in Income Tax, Payroll Taxes, Use Tax, Tax & Rent, processing, auditing and collections. Can 4 "new" examiners do this in a timely fashion? If not, what are the hidden costs in having inexperienced tax examiners during their ramp up time?
- One comment was made to the Bangor Daily News that security was an issue in outlying offices. Better to consolidate activities in one central location. Houlton has door locked at all times, monitored 24/7 with a security system and no signage outside the building. Portland office not being affected with job losses due to being an outlying office and Bangor field auditors will be working out of their homes, probably the least secure environment.
- I would go so far as to say that the Maine Revenue Services, if they decide they ever need additional Tax Examiners, should think about hiring them for the Houlton office since:
    - They could easily be hired in Houlton,
    - The Houlton office space could handle an additional 2 employees quite easily and
    - The current management & clerical staff could handle an additional two employees.

## TOTAL JOB ELIMINATIONS IN PROPOSED BUDGET

For DFAS: 36 positions proposed to be eliminated while 22 are proposed to be established. Net loss is 14 positions.

Houlton office of MRS = 14 jobs eliminated = 100% of the job eliminations in DFAS.

Statewide:

69 positions proposed to be eliminated while 52.5 proposed to be established.

Net state loss of jobs = 16.5

Houlton MRS = 14 jobs = 85% of the state total job loss.

Summary: 100% of DFAS' job loss is attributable to revenue producing employees.

85% of the state's proposed job elimination is in revenue producing areas.

**Testimony of MSEA-SEIU President Dana Graham Before the Joint Standing Committee on Appropriations and Financial Affairs in Support of Maine Revenue Services Workers in Houlton and Bangor**

March 6 , 2007

Senator Rotundo, Representative Fischer and Members of the Joint Standing Committee on Appropriations & Financial Affairs Committee:

My name is Dana Graham. I am president of the Maine State Employees Association, Local 1989 of the Service Employees International Union. Our Union represents over 10,000 Maine workers.

We're here to respectfully request that each of you ask some hard questions about the administration's proposals to close the Maine Revenue Services office in Houlton and lay off the entire staff of 14 workers – apparently all so their jobs can be moved to Augusta. We're equally concerned about plans to close the Bangor office of Maine Revenue Services, lay off two of its workers and order nine auditors in the office to work out of their homes.

We recognize there's tremendous pressure to cut state spending, yet we strongly believe that all decisions should be based on sound policy. We've seen all too clearly in the MaineCare billing mess the consequences of cutting workers to the point that the work can no longer be done.

Now I was born in Houlton. I've lived there all my life, but that's not why I'm here. I'm here because I've spent the last two months trying to figure out why these dedicated workers at Maine Revenue Services should lose their jobs. I've met with the workers. I've met with their managers.

Here's what I know about these workers and what they do:

I do know that these 14 workers at the Houlton office of Maine Revenue Services are producing significant revenue for the State – over $52 million just in the past eight years. It just doesn't seem to make sense to cut revenue-making positions such as these.

I do know that the Town of Houlton has a fragile economy. Larger communities might not have a problem absorbing the loss of 14 good jobs with benefits, but Houlton isn't that fortunate. Although the town has made good progress creating jobs and growing its local economy, losing these jobs would be a step backwards for Houlton. Losing these jobs would reinforce the notion of "Two Maines."

I do know that the 14 Maine Revenue Services workers who stand to lose their jobs in Houlton are experienced, dedicated tax examiners, senior tax examiners and clerical workers. They would have few options if thrown out on the street.

And I do know that family considerations keep many of these workers in the Houlton area. Some are raising their children on one income. What are these workers and their families going to do if their jobs are moved to Augusta?

Please don't tell them they can move to Augusta. Because I also know that Houlton is their home. Many were born there. Many will die there.

Why disrupt the lives of these workers, their families and the local economy for no compelling reason? If there is a compelling reason, we sure haven't heard it. So please ask the hard questions – and keep the Houlton and Bangor offices of Maine Revenue Services open.

Thank you and I'd be glad to answer any questions.

Appropriations and Financial Affairs Committee Hearing
Closing the Houlton Office of Maine State Revenue Service

Douglas Hazlett – Houlton Town Manager

Senator Rotundo, Representative Fischer, members of the Appropriations and Financial Affairs Committee, and members of the Taxation Committee. My name is Doug Hazlett, and I am the Town Manager in Houlton.

You have received a great deal of information, facts, and figures concerning closing the Houlton office of Maine State Revenue, much of it in opposition to doing so. Based on my job title it should be no surprise that I too am in opposition to this closing.

However, my opposition is not based solely on the impact to Houlton. From a state perspective I feel Maine State Revenue is a good organization, and does an excellent job of accomplishing their assigned task ... maximizing state revenue collections. It seems to me their mission has never been as important as right now. As you well know from your responsibilities, there is an increasing demand for expenditures ... and little appetite for increased taxes. So maximizing our current revenue is a critical issue. Data has been presented arguing that a revenue loss will occur from this action, and data has been offered saying that there will be no loss of revenue. As you know, data can be presented to frame any argument. From my perspective, putting the data arguments aside, I don't think this is the right time to gamble with ANY risk of a potential revenue loss. The old saying "if it ain't broke ... don't fix it" seems to apply quite well here.

My second view *is* more parochial. Can Houlton afford to lose 14 good jobs? My answer is categorically "no". In the entire scheme of things, and at a state level, 14 jobs may not seem like a big issue. But, I must tell you, in Houlton it is. We have been struggling for years to CREATE jobs in the County and in Houlton ... it is very difficult, but we are making some progress. However, we simply can't afford to go backwards.

Some of the other data highlights Maine Revenue Services vacancies in the Augusta office, and the difficulty they are having finding and keeping skilled workers. I find it an interesting contradiction ... in Houlton we are having difficulty finding jobs ... and in Augusta there is difficulty finding workers. Maybe we have this backwards ... perhaps we should be filling Maine State Revenue vacant positions by INCREASING the number of staff positions in Houlton.

In summary, I support spending cuts, but not in "mission critical" areas. Maine State Revenue is a well functioning department doing a critical task. I do not believe this is the time to seek budget and staff cuts in that department.

Thank you for your time.

TO: Joint Standing Committee on Appropriations and Financial Affairs
Joint Standing Committee on Taxation
FROM: Pamela L. Beal PLB
58 Sylvan Road
South Portland, Maine 04106
(207) 767-2737
RE: Testimony regarding the proposal to close the Houlton office of Maine Revenue Services as outlined in the Governor's budget
DATE: Tuesday - March 6, 2007

Senator Rotundo, Representative Fischer, Senator Perry, Representative Piotti, honorable members of the Appropriations and Financial Affairs Committee and of the Committee on Taxation. I appreciate this opportunity to speak with you today. I am Pamela Beal and I live in South Portland. Today I am here to testify in opposition to the proposal to close the Maine Revenue Services Houlton office.

Imagine reading the following short articles in the News Briefs column of the newspaper or on the editorial page.

**Don't cut off the hand that feeds you!**
It's a poor business decision to eliminate any entity which generates far more than it costs to operate. I would contend that the state is getting a real bang for it's buck when the annual cost of staffing, associated costs, and overhead are less than 10% of the annual revenue assessed and collected. It certainly is a real deal. To close down such an operation would in my opinion be a poor business decision. Any short term savings would have long-lasting effects. Why would anyone cut off the hand that feeds him/her?

**If you build it, they will come!**
This line from the movie, "*Field of Dreams*" certainly applies to the Houlton office for they are fully staffed, working to capacity, have had almost no turnover (three positions in seven years) and appear to be a great example of a very successful venture. I applaud MRS for taking the initiative to open this office seven years ago.

**The days of having everyone work under one roof are gone!**
No longer does everyone need to be in the same place to operate well and efficiently. The days of having everyone work under the same roof are gone. With few exceptions technology has made it possible to work in a satellite office. Passwords, firewalls, and central servers have allowed people to conduct business without compromising the integrity, confidentiality, or security of information.

**Houlton office is successful!**
Satellite offices can operate well. The Houlton office has provided support to their counterparts in Augusta. The two groups work well together to maximize their resources. Houlton proves itself over the years as an exemplary facility that has carried out many revenue generating projects.

**Viable jobs can be available in rural areas!**
This is a great attraction for our youth who often leave the state because either there are no jobs or no good paying jobs available in some areas of our state.

**Good jobs revitalize the area!**
This is a success story for an area of Maine where viable jobs are not plentiful. The economic ripple effect can be felt throughout the community and region.

**Despite some hardships employees continue to stay and produce excellent results!**
State employees at the Houlton office have endured furlough days, a year with no raise, a year with no step increase, and entry level employees being hired at step four while seasoned employees' compensation was not adjusted to bring it in line with the new hire compensation. Yet these employees continue to remain loyal and productive. It's time to stop balancing the budget on the backs of state employees.

**Increase and Add Administrative Positions - Cut Worker Bees!**
Proposed budget cut will eliminate the Houlton office. Currently there are no Tax Section Managers in Houlton, one will be established in Augusta. There are two Senior Tax Examiners in Houlton, but three are proposed to be established in Augusta. Now there are nine Tax Examiners in Houlton only four are proposed for Augusta. The three Clerical positions will be cut.

The bottom line is clear and the questions are all too obvious. Should the state keep offices open in rural areas just to save jobs? Of course not. However, this situation is quite different. This office has a proven track record. The expenditures for personnel and overhead are minimal when compared with the revenue generated for the state. Therefore, is closing the Houlton office a good <u>business</u> decision for the state? In light of the facts presented, I would answer, NO. Does it seem shortsighted to eliminate a satellite office that is making significant contributions to the economy and filling the state coffers? My answer is, YES. Does this situation seem to play into the two Maines scenario? Yes, it certainly seems that way when a northern Maine office is closed, yet it is pointed out there are a number of vacancies in Augusta and the possibility exists that Houlton employees could keep their jobs by transferring south. This doesn't make sense. To quote an old Yankee adage, "If it ain't broke, don't fix it". Should cuts be made in a department that generates revenue? I would say, NO. All Mainers and taxpayers will be affected by this decision.

This could be the headline you write.

**Houlton office is saved!**
The MRS office in Houlton is spared the ax. Twenty vacant positions in Augusta, which generated no revenue, are eliminated. Once again elected officials have considered the facts and made a decision which looks after the best interests of citizens and taxpayers.

You, our elected officials, have the ability to turn this proposed situation around, you have heard the facts, and once again I would encourage you to keep the Houlton office open! Thank you for your time and attention. I would be happy to answer any questions.

TO: Joint Standing Committee on Appropriations and Financial Affairs
Joint Standing Committee on Taxation

FROM: Pamela L. Beal PLB
58 Sylvan Road
South Portland, Maine 04106
(207) 767-2737

RE: Testimony regarding the proposal to close the Houlton office of Maine Revenue Services as outlined in the Governor's budget

DATE: Wednesday - February 14, 2007

Senator Rotundo, Representative Fischer, Senator Perry, Representative Piotti, honorable members of the Appropriations and Financial Affairs Committee and of the Committee on Taxation I appreciate this opportunity to speak with you today. I am Pamela Beal and I live in South Portland. Today I am here to testify in opposition to the proposal to close the Maine Revenue Services Houlton office.

Governor Baldacci has proposed across the board cuts. I have never been of the opinion that this method works well or really solves a problem. Many times the difficult questions are not asked and an easy solution is reached by eliminating a viable entity with the quick stroke of a pen. To suggest that everyone cut the same amount from one's budget strikes me as shortsighted, especially when one of those departments generates revenue for our state. I am of the opinion that if one were to examine each entity on a case by case basis it might be determined that some departments could cut more than 5% from their operating budget, while others such as Maine Revenue Services might cut nothing. I would certainly think that discretion would be used. Some might label this bold move as unfair and inequitable, but I would argue that Maine is a poor state and the more eyes that examine the returns the more revenue that is assessed. Taxes feed our state and audits are part of the focus of Maine Revenue Services. This along with a plethora of other projects are imperative to assure that no stone is left unturned and that every attempt is made to maximize the income that is generated. The Houlton office more than carries its weight. The facts show that the state is getting a real bang for its buck as the revenue generated by this office is substantial. The need for a supplemental budget in excess of $120 million clearly points to our need to generate as much revenue as possible. One does not cut off the hand that feeds him. As a concerned taxpayer and a responsible citizen, I believe it would not only be a bad business decision, but it would be irresponsible to eliminate the Houlton office.

When DFAS in Limestone was in danger of being cut and consolidation was on the horizon, the governor was a very vocal advocate for keeping the center open. As a matter of fact, in his recent re-election campaign ads he even referred to his part in the successful effort to preserve this center. The work ethic and efficiency of these DFAS employees was applauded and the center was saved. Not only was the facility kept open, but it was expanded. There is an interesting parallel here because the Houlton office is a prime example of a very successful model within our very own Maine Revenue Services. Yet I find it rather incongruous and also odd that when the governor has an almost identical situation within his state government, he has proposed closing the Houlton office.

Governor Baldacci has encouraged businesses to relocate to Maine where their employees can enjoy all that our state has to offer - Maine, the way life should be! He has pointed out the opportunity to have viable jobs in a rural area is so much more available now that we have computers to link us together in a matter of seconds. The advent of computers and vast technological resources and advances make it possible for satellite offices to operate very efficiently. As a matter of fact the operating expenses and overhead are often significantly less in rural areas Technology has made it possible for us to adapt and utilize our resources in new and efficient ways. Passwords, firewalls, and central servers have allowed people to conduct business without compromising the integrity, confidentiality, or security of information. There is concrete evidence that a satellite office can operate very successfully. Now it is possible to have it all - a rural lifestyle, a productive job, a living wage, and a link to an urban area. One does not have to relocate because the same quality job can be performed well right in northern Maine! This is the case with the Houlton office and its employees. It is no longer necessary for everyone to be under the same roof. Those days are gone forever. Both the Department of Human Services and Motor Vehicles have many offices throughout the state.

There was an article in the *Bangor Daily News* Tuesday, February 6 in which Jerome Gerard, acting executive director of MRS, pointed out that ...the Augusta office has a number of vacancies at any given time, leaving open the possibility that employees in Houlton and Bangor could transfer their jobs... I would note these vacancies are costing the state money. However, filling vacancies is not a problem at the Houlton office. Good jobs are scarce and I would venture a guess that any opening would be filled quickly in this region as evidenced by the expansion of DFAS in Limestone. Employees in Houlton were hired more than seven years ago, all the positions are filled, and only three changes have occurred during that time. There is continuity, cohesiveness, and stability in that office. I don't believe many would choose to uproot their families and relocate approximately 190 miles south. If the Houlton office were to be kept open, Augusta would be just the click of a mouse away!

The goals of the governor are many: keeping students in Maine, making the state business friendly, spurring economic development in all areas and regions of the state, establishing and nurturing viable jobs in rural areas, and eliminating the two Maines - to name just a few. Keeping an office which is not only self-supporting, but that has a ripple effect on an entire area would make sense to me. As with any region, economic development in northern Maine is facilitated by viable jobs. We have all watched as Maine jobs are lost. The impact affects us all. Fourteen jobs doesn't sound like much, but little by little the economic base erodes. Disposable income disappears. A small town in a rural area begins to shrivel losing businesses that no longer have the resources to support them. It may be the department store, the small dress shop, or a hardware store. Eventually, sometime down the road a big box store may move in and some people will find employment. However, more often than not comparable jobs are not available in the area and unless retirement is an option, people and their families relocate leaving the area further decimated. By this time many of the small merchants who are left can't compete with the big boxes and owners either close or retire. The town becomes a skeleton of its former self and a decimated town is not very attractive to new business. This scenario has taken place to some degree all over our state, but northern Maine has and is struggling to attract business which will provide good jobs and breathe new life into a region or community.

The bottom line is clear and the questions are all too obvious. Should the state keep offices open in rural areas just to save jobs? Of course not. However, this situation is quite different. This office has a proven track record. The expenditures for personnel and overhead are minimal when compared with the revenue generated for the state. Therefore, is closing the Houlton office a good business decision for the state? In light of the facts presented, I would answer, NO. Does it seem shortsighted to eliminate a satellite office that is making significant contributions to the economy and filling the state coffers? My answer is, YES. Does this situation seem to play into the two Maines scenario? Yes, it certainly seems that way when a northern Maine office is closed, yet it is pointed out there are a number of vacancies in Augusta and the possibility exists that Houlton employees could keep their jobs by transferring south. This doesn't make sense. To quote an old Yankee adage, "If it ain"t broke, don't fix it". Should cuts be made in a department that generates revenue? I would say, NO. All Mainers and taxpayers will be affected by this decision.

You, our elected officials, have the ability to turn this proposed situation around, you have heard the facts, and once again I would encourage you to keep the Houlton office open! Thank you for your time and attention. I would be happy to answer any questions.

The budget for fiscal year 2008-2009 has been released by Governor John Baldacci. The report included a proposal to close the Maine Revenue Services Houlton office. As a citizen of Maine, I am very opposed to this action and have included some important facts for your perusal.

## Historical Summary

- October 1999 - the Houlton office was opened. Anthony Neves, director of Maine Revenue Services, established the office to serve as a quick response team that could shift gears and refocus easily on varying tasks and projects. After seven plus years this mission continues.
- Initial staff = 8 (2 Senior Tax Examiners, 4 Tax Examiners, 2 clerk positions)
- The office was split between the Sales Tax Division and the Income Tax Division.
- Early in 2000 the entire office was shifted to the Compliance Division. The primary focus of the staff being desk audits - generating revenue and finding new sources of revenue.
- Today, nearly seven and one-half (7 1/2) years later, the Houlton office is at full staff = 14 (2 senior tax examiners, 9 tax examiners, 3 clerk positions)

## What The Staff Does

- Conducts 30 different audit projects in both Income Tax and Use Tax.
- Regularly assists the Income Tax Division with phone support and processing suspended returns.
- Provides leads for the non-filer group and the audit section.
- Assists with the Revocation process.
- Conducts outreach training to Tax Counselors for the Elderly in East Millinocket and the Aroostook Agency on Aging in Presque Isle.
- Participates in a variety of special projects including assisting the non-filer unit during Amnesty, assisting with the Cigarette Tax expansion project, doing collections, and working overtime projects to do additional suspensions and desk audits.
- Works as a team together with other MRS employees in Augusta.

## Cross Training

- Houlton staff is trained to handle the following: Income Tax, Payroll Taxes, Use Tax, Sales Tax, and the Tax and Rent Program.
- They are trained in processing, auditing, and collections.

## Phone Calls

Customer Service - Taxpayer Assistance Line
- Taxpayer assistance calls handled by the Houlton staff = an average of 10,050 calls per year representing 11% of the state total.
- Calls in February through April - the Houlton office averaged 13% of the state total.
- Over the last three years the Houlton office averaged 25% of the total state calls for the last week of the filing season.

Tax and Rent Program (Circuit Breaker Program)
- During the first two months of the program, the Houlton staff averages 12% of the total state calls. Thirteen (13) days during this two month period over 20% of the total calls were handled by Houlton staff including one (1) day when Houlton handled 43% of the calls
- Average of total state calls in 2006 = 17%.

## Revenue

- Prior to the establishment of a Houlton office, temporary staff was used to handle some of the Use Tax desk audits. Annual average revenue from 1996-1999 = $1,274,215. Now, compare these figures to the increased revenue generated by the Houlton office.
- In 1999 a Houlton office was established. The temporary staff was eliminated. Their functions were assumed by the Houlton staff. Total revenue assessed for both Income Tax and Use Tax desk audits since 1999 through the end of January 2007 = $52,847,310. Average annual income from both Income Tax and Use Tax desk audits = $8,027,439. Collections = $2.7 million annually.
- Collections from Revocation visits = $257,112.95. This represents $42,842.16 per year.

## Cost Savings

- Significant interest savings on suspended returns, some with refunds, were realized by the state. In 2006 from April through July, some Houlton staff was shifted to working suspensions full time. 7,808 suspensions were processed so interest would not have to be paid on refunds. Estimated savings to the state in interest payments if these suspensions had <u>not</u> been processed = $17,210 per month. Three or four months of interest which would have cost the state between $51,630 - $68,841 was saved due to some Houlton staff processing and completing the suspensions in a timely fashion.
- Revocation visits done by Houlton staff have saved the state an estimated $21,557 when compared with the expense (mileage, lodging, and meals) of sending employees from Augusta to do these visits. If personnel from Milford were used, instead of Augusta, an estimated savings of $7,482 would still be realized.
- Trainings in Presque Isle and East Millinocket done by a Houlton staff member instead of sending someone from Augusta saves money.
- Savings were again realized when eight (8) members of the Houlton office assisted with the Cigarette Tax project. They covered parts of central Aroostook, all of southern Aroostook, parts of northern Penobscot, and northern Washington counties.

## Negative Impact

- Closing the Houlton office would reduce the overall number of employees resulting in a loss of revenue and collections.
- The cross training and flexibility of the Houlton office is unique. This asset would be lost.
- Eliminating trained/skilled existing employees and hiring untrained replacements would reduce productivity.
- Replacing staff is expensive. It has been estimated that it takes approximately a year for a Tax Examiner to pay for him/herself.
- New Tax Examiners would have to be trained at an estimated cost of $40,000 each.
- The Houlton office has had minimal turnover (only 2 clerical workers and 1 tax examiner have left) since it was established. Closing a stable, efficient, and productive office will result in a reduced revenue stream for the state.
- Currently there are Tax Examiner vacancies in Augusta which can't be filled. Estimated cost = $190,000.
- If vacancies in Augusta can't be filled now, it doesn't make sense to create even more vacancies.
- Overhead is more expensive in more urban areas. Closing an office in rural Maine will result in more expense to the taxpayer. Cost per square foot including cleaning is more than $5.50 less than comparable office space in Augusta.

Maine Issue Brief

Published by The Maine Heritage Policy Center

No. 9 March 6, 2007

# Smoke and Borders:

*How tobacco tax increases promote cross-border shopping.*

by: J. Scott Moody, M.A.

Governor John E. Baldacci's General Fund budget proposal includes a dramatic hike in tobacco taxes. The budget includes a 50 percent increase in the cigarette tax to \$3.00 per pack from \$2.00 per pack starting in state fiscal year (FY) 2008. Additionally, the tax on "smokeless tobacco" would increase by 50 percent to 117 percent of the wholesale price from 78 percent, while "other tobacco" (cigars, pipe tobacco, etc.) would increase by 50 percent to 30 percent of the wholesale price from 20 percent.

Overall, the tobacco tax increase is estimated to generate \$66 million in new revenue. However, the new revenue estimate was clearly made through rose (or is it smoke?) colored glasses. In particular, a reasonable adjustment for the effect of cross-border shopping reveals a much reduced revenue gain. Cross-border shopping for cigarettes is a nationwide phenomenon and occurs when there are significant differences in the price of cigarettes between states.[1] Since cigarette taxes affect the price of cigarettes, differences in the tax rate between states encourage people to buy cigarettes over state lines.

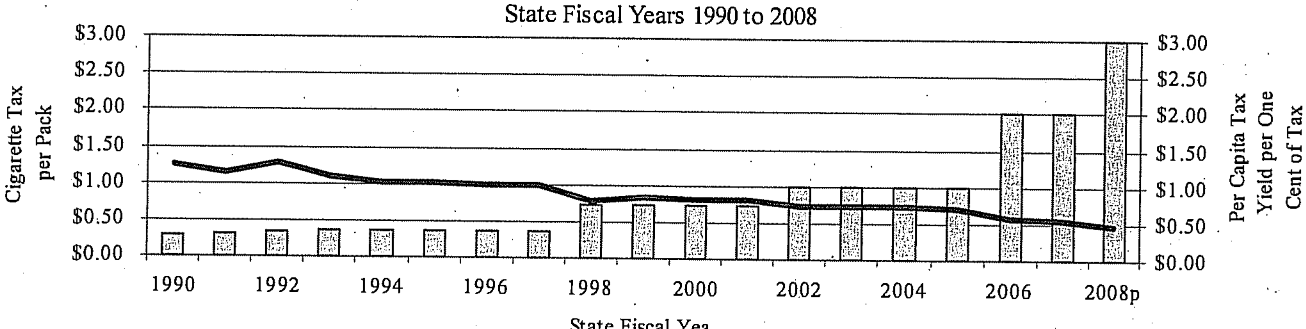
Among the New England states, New Hampshire benefits greatly from cross-border shopping for cigarettes. New Hampshire's cigarette tax rate (80 cents per pack) is significantly lower than the rate in Maine (\$2 per pack), Massachusetts (\$1.51 per pack) and Vermont (\$1.19 per pack) in FY 2006.[2]

A quick comparison between New Hampshire and Maine gives an especially compelling example of cross-boarder shopping to avoid paying cigarette taxes. Despite New Hampshire having a much lower cigarette tax rate (80 cents versus \$2 per pack), and both states having nearly the same size population, New Hampshire raised almost the same revenue as Maine did from cigarette taxes in FY 2006 (\$138 million versus \$153 million).

It is also important to note that the variance in revenue generated by tobacco taxes is not the result of dramatic differences in the smoking rates between the two states. For men, Maine has the 25th (22.1 percent) highest smoking rate while New Hampshire is the 39th (20.2 percent). For women, Maine has the 22nd (19.4 percent) highest smoking rate while New Hampshire is the 14th (20.4 percent).[3]

Chart 1 shows over time, as Maine's cigarette tax rate has increased, the "per capita tax yield per one cent of tax" (hereafter called "tax yield") has fallen dramatically. This drop in "tax yield" is strong evidence of cross-border cigarette shopping. The "tax yield" measures the change in per capita tax revenue per one cent change in the cigarette tax rate. For example, in FY 1996, a tax of one cent per pack raised exactly \$1 per person of revenue. Multiply \$1 by the tax rate (37 cents) equals per capita revenue of \$37, then multiply by the number of people (1,246,270) and the resulting number equals total revenue collected of \$46 million.

Chart 1
Maine's Cigarette Tax Yield Falls as Tax Rate Rises
State Fiscal Years 1990 to 2008




Source: Orzenchowski and Walker, 2005.

Between FY 1990 and FY 2006, the cigarette tax rate has increased 614 percent to $2 per pack from 28 cents per pack. At the same time, the tax yield has decreased 54 percent to 58 cents from $1.25. A significant portion of this overall drop occurred between FY 2005 and FY 2006 when the cigarette tax rate increased 100 percent to $2 a pack from $1 a pack. Correspondingly, the tax yield dropped 18.3 percent to 58 cents from 71 cents.

Table 1
$23 Million of Projected Cigarette Tax Revenue Goes up in Smoke
State Fiscal Years 2005 to 2008

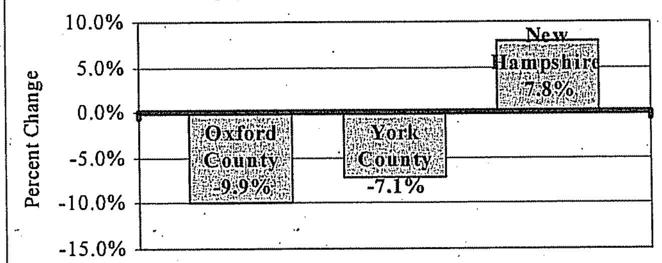
| State Fiscal Year | Cigarette Tax Rate per Pack | Per Capita Tax Yield per One Cent of Tax | Cigarette Tax Collections Millions of Dollars: Governor's Budget Proposal | MHPC Estimate | Difference |
|---|---|---|---|---|---|
| 2005 | $1.00 | $0.71 | $94 | $94 | $0 |
| 2006 | $2.00 | $0.58 | $153 | $153 | $0 |
| 2007p | $2.00 | $0.55 | $148 | $148 | $0 |
| 2008p | $3.00 | $0.47 | $214 | $191 | -$23 |

Source: Orzencowski and Walker, 2005; Governor's Budget, MHPC.

The dramatic drop in tax yield is a clear warning to policymakers that continued increases in the cigarette tax will result in increased cross-border shopping with New Hampshire and in the process, a boost to their cigarette tax revenue.[4] Currently, Maine has the historically highest tax rate differential with New Hampshire at $1.20 per pack ($2 Maine tax minus 80 cents New Hampshire tax). The differential would grow to $2.20 a pack under the proposed $1 tax rate increase.

Chart 1 also illustrates the estimated drop in tax yield in FY 2008 if the cigarette tax is increased. The estimate conservatively assumes that the tax yield would drop by half the drop experienced when the tax rate was raised to $2 from $1 per pack in FY 2006.[5] As a result, Table 2 shows that the increase in revenue would only be $43 million, or $23 million lower than the Governor's estimate of $66 million.[6]

Chart 2
Percent Change in Cigarette Sales at Big Apple/CN Brown Convenience Stores in Oxford County, York County and New Hampshire after the $1 per Pack increase in Cigarette Tax between 2005 and 2006




Source: Big Apple/CN

While there is strong circumstantial evidence in support of cross-border shopping, what "hard evidence" is there? Chart 2 shows the percent change in cigarette sales at Big Apple/CN Brown convenience stores in Oxford County, York County and New Hampshire after the $1 per pack cigarette tax increase between 2005 and 2006.[7] Since Oxford and York County directly border New Hampshire, the cross-border shopping effect is most acute there. In fact, the average cigarette sales fell by 9.9 percent in Oxford County and 7.1 percent in York County. At the same time, sales rose in their New Hampshire stores by an average of 7.8 percent.

**Notes and Sources:**

[1] Fleenor, Patrick, "How Excise Tax Differentials Affect Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States," Background Paper No. 26, The Tax Foundation, October 1, 1998. http://www.taxfoundation.org/files/4cd5774343c1f82447a1381a01c62980.pdf

[2] Vermont's cigarette tax rate increased to $1.79 a pack in FY 2007.

[3] Kaiser Family Foundation, *Smoking Rates for Adults by Sex*, 2005. http://www.statehealthfacts.org

[4] In addition to lower cigarette tax revenue, Maine would also suffer lower income tax and sales tax revenue due not only to lost cigarette sales, but also due to lower sales of other complementary goods such a gasoline and food.

[5] The tax yield dropped 13 cents between FY 2005 and FY 2006. While both the actual and proposed tax rate increases are of the same magnitude ($1 per pack), this analysis conservatively assumes a drop in tax yield that is half, 6.5 cents, the drop between FY 2005 and FY 2006.

[6] If the drop in tax yield is assumed to equal the drop between FY 2005 and FY 2006 (13 cents), the increase in revenue would only be $11 million, or $55 million lower than the Governor's estimate of $66 million.

[7] Proprietary sales data provided by Jinger Duryea, President of CN Brown Company.

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Maine Issue Brief is a publication of The Maine Heritage Policy Center that provides research and commentary on current public policy issues. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland, Maine. The Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, and education – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.



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# TESTIMONY OF THE MAINE MEDICAL ASSOCIATION

## IN SUPPORT OF

## PART "T" OF L.D. 499, THE $1 PER PACK INCREASE IN THE CIGARETTE EXCISE TAX

Joint Standing Committee on Appropriations & Financial Affairs
Joint Standing Committee on Taxation
Room 228, State House
Tuesday, March 6, 2007, 2:00 p.m.

Good afternoon Senator Rotundo, Senator Perry, Representative Fischer, Representative Piotti, and Members of the Appropriations and Taxation Committees. My name is Gordon Smith and I am the Executive Vice President of the Maine Medical Association, a professional organization representing more than 2700 Maine physicians. I am here today to express the support of the MMA, and our Public Health Committee in particular, for Part "T" of L.D. 499, the cigarette excise tax increase. In fact, as you have seen in today's press, the MMA would support a greater increase in the tax than that proposed by the Governor because of the public health benefit of substantial increases in the cost of cigarettes.

More than twenty years ago, the Maine Medical Association joined the Heart, Lung, and Cancer organizations to form the Maine Coalition on Smoking OR Health because we recognized the need for a coordinated effort to educate and advocate for policies that will reduce the devastating effects of tobacco use on our citizens and our economy.

Less than a decade ago, Maine's young adult smoking rate was the highest in the nation. This was one of those times when it's not good to be #1 - we knew we needed a #1 response to our #1 problem.

Since then, and thanks to the vision of the Maine Legislature, Maine has taken an aggressive approach to fighting tobacco use, including three tobacco tax increases and the allocation of between $10 and $15 million per year since the year 2000 to programs that help people quit and keep kids from starting.

Over the last few years, we have been thrilled to see Maine's youth smoking rates drop by 60% and adult smoking rates fall to 21%.

Yet despite solid progress, 17% of kids still smoke, and an even more alarming 36% of our young adults smoke. Smoking kills 2400 Maine people every year and 3800 new smokers replace them.

Here's the unfortunate reality: for every three kids who become addicted to tobacco, one will die early.

Don't forget, Maine's $15 million annual prevention and treatment investment is up against the $74 million that tobacco companies spend in Maine each year promoting their products.

Tobacco use is Maine's #1 killer – taking its toll in the form of heart disease, cancer, and a host of other illnesses,

And it's not just about lives shortened and sickness endured. The cost of tobacco use in financial terms is also staggering:

- In Maine, $600 million dollars are spent annually in direct medical costs alone.
- That's $7 in medical costs for every pack of cigarettes sold.

These costs are bad for Maine's businesses and bad for Maine's economy.

In these difficult financial times we can't afford to spend more and more on health costs – especially preventable ones. We need to continue our aggressive approach to reducing tobacco use.

Luckily, there is a road map to follow. Research done by the CDC and others shows that to be successful in significantly reducing smoking rates, a variety of strategies must be employed. In addition to the community, school, and media efforts, we need to make the price of cigarettes high in order to discourage use

As with most products, when the price goes up, the demand for cigarettes drops. Kids are particularly price sensitive and, for many young people, higher prices could make the difference between addiction and a life free of tobacco-related disease.

We also know that 70% of smokers WANT to quit – we need to do everything we can to help them. For many, especially young people, a substantial increase in price will be the final straw that pushes them to seek treatment for this deadly addiction.

We need to make sure we maintain our #1 approach to this #1 killer.

Thank you for considering the views of the MMA on this aspect of the biennial budget bill.

**Testimony of Gena Canning**

**Principal, Pine State Trading Co.**

**Before the**

**Joint Standing Committee on Appropriations and Financial Affairs**

**In Opposition to Part T, LD 499**

**March 6, 2007**

Senator Rotundo, Representative Fischer, Members of the Appropriations Committee, I am Gena Canning, a principal and 3rd generation owner of Pine State Trading Co. I appear here today in opposition to Part T of LD 499.

Pine State Trading was begun by my Grandfather in 1945. He and my Grandmother, and their 4 children arrived in Maine without money but with a great entrepreneurial spirit and energy. Today, we employ approximately 700 hard working Mainers and New Englanders who receive great wages and benefits, many right here in Augusta and Gardiner. Many of our employees have been with us a long time demonstrating the caring environment we try to foster. We distribute over 16,000 food, snack, beverage and convenience products to our many retail partners throughout New England.

I am here today in strong opposition to Part T of LD 499, which is the proposal to raise the tax on cigarettes and other tobacco products, also known as OTP. Part T also reduces the discount rate, which is the very small allowance that distributors are granted to help cover the cost of stamping cigarettes and collecting the projected $230 million dollars a year in cigarette and tobacco tax. This budget seeks a projected additional $66 million dollars in revenue from these taxes. Finally, this proposed increase creates another hardship on distributors which this legislature tried to resolve only last year, that being the cost and size of the bonding needed for distributors to obtain tax stamps on 30 days credit.

First I would like to address the tax increase. Sound public and tax policy dictates that taxes be imposed across a broad spectrum of activities so as to be fair, resistant to swings in market and economic variations, and balanced in their application upon the citizens bearing the taxes. Part T of this budget is contrary to these basic principles. If the state excise tax is raised to the proposed level of $3.00 per pack, this budget projects that cigarette and tobacco taxes will generate fully 6.8% of Maine's TOTAL revenue. This same budget which you are considering projects only 6.6% of revenue coming from the corporate income tax.[1] We ask you whether smokers should bear a greater proportion of generating the state's revenues than the corporate income tax. This is not fair or sound public policy.

The excise tax does not fully explain the total tax burden imposed on smokers. Other taxes currently imposed include federal excise tax ($0.39), state sales tax ($0.26) and the cost of the Tobacco Settlement ($0.50).

[1] See Chart D-1, General Fund Recommended Revenues, FY 08-09 Biennium by Source accompanying the Budget proposal submitted by the Governor. As you know, projections of current corporate income tax revenue are lower than anticipated so that this difference is likely to be even greater.

Under the current tax regime, governments already receive 57.6% of the retail price for a pack of cigarettes. If the tax increase is imposed, the government share will increase to 64.4% of the retail cost of a pack of cigarettes. I ask you what other product is taxed so heavily. This is not fair tax policy and is unfair to a small proportion of Maine citizens. Such an unfair imposition further undermines the public's confidence in its government's ability to be fair in setting tax policy.

Pine State understands that the proponents of this increase seek to lower the use of tobacco and to mitigate future health care costs. But raising the tax to such high levels is seriously eroding that ability. In the long term, this tax revenue will continue to fail to meet expectations as tax-paid sales continue to decline. Cigarette consumption in the US has been declining by 1 to 2% a year, more so in Maine. Thus, Maine will realize less and less revenue from its cigarette and tobacco tax over time. Since you are looking at 6.8% of your revenue coming from tobacco sales, you must admit that you have made the Maine budget dependent on cigarette and tobacco sales! It is an unstable and declining revenue source and hiking the tax even further is counterproductive.

In addition, by increasing the tax so it becomes the highest in the nation, the budget exacerbates the very real problem of cross-border and illegal sales. While others will talk in greater depth, I just want to mention that it is instructive to simply note that while Maine and New Hampshire have roughly the same population and demographics, New Hampshire sells 4 times the amount of cigarettes. This can only be attributable to Maine, Massachusetts and Vermont residents purchasing great quantities of cigarettes and tobacco in that state.[2] Thus the objective of increasing the tax to reduce health care costs creates in fact just the opposite result, since more Mainers continue to buy product in other jurisdictions, over the internet or illegally and yet remain here with their health problems.

Second, I would like to address the issue of the stamping or discount rate. Under Part T, the rate will fall from 1.15% today to .82% if the proposed increase takes effect. Maine Revenue Service will tell you that this decrease is in proportion to the proposed tax increase so that distributors receive the same "allowance" for collecting the revenue as it currently receives. What this simplistic analysis does is fail to recognize the costs Pine State and others bear in collecting the projected $458 million dollars of revenue for the State in the next two years. It takes huge amounts of work hours to stamp each individual pack of cigarettes prior to their distribution to our retailers. Please remember that these cigarette packs have to be unpacked from boxes and then each carton opened, each pack stamped and then each carton resealed before they go out our door. This takes an amazing amount of worker hours each day, significant capital expenditures for equipment, very expensive security (internal theft is a very real threat), insurance and accounting costs for both the tax stamps and the product, as well as significant financing costs to be able to obtain tax stamps on 30 days credit. By reducing the allowance, you are negatively

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[2] Under Part T, a carton of cigarettes in Maine would become up to $24.72 more expensive than those sold in neighboring states, and $45.55 more expensive than those sold over the internet. Most residents in Maine can reach the border in NH in less than 1 hour, often much less. We know that we drive miles to save pennies for a gallon of gas. Common sense dictates that people will drive much further to save nearly $25 on the purchase of 10 packs of cigarettes! See also the attached Wall Street Journal article on the same topic from last Friday, March 2, 2007.

impacting Pine State as the costs of collecting this tax have increased substantially over the years. This is unfair and very detrimental to a good Maine company. The allowance should remain the same so we can recover the very real costs of being the State's tax collector.

Finally, the tax increase creates another and now recurring problem. As you know, distributors like Pine State must pay cash for the tax stamps unless it buys a bond in an amount equal to its monthly stamp purchases. For Pine State, this is reaching nearly $10 million dollars. Due to the significant tax increase imposed in 2005 by this Legislature, our ability to purchase a bond was severely undermined. The costs and availability of the higher bonding limits threatened to limit most distributors' ability to purchase stamps on credit. Working throughout the fall of 2005 and then during last session with the Administration and Maine Revenue, Pine State was able to secure passage of a provision that allowed distributors the ability to bond at a rate of 50% of the monthly tax purchase rather than a full 100%. (See P.L 2005, c. 622, §25).

However, this tax increase just repeats the problem. Pine State will now need to purchase a bond with a much higher dollar limit and the cost of that bonding authority will be greatly increased, assuming that we can even qualify. If Pine State and others are required to purchase a significant quantity of stamps with cash, then Pine State must bear the increased costs of carrying that expense since Pine State does not realize the repayment of that tax from retailers for quite some time. Thus, Pine State and others will be forced to float millions of dollars of taxes a month to the

State without being compensated. This is very unfair and would force us to reduce our labor force to be able to do so.

In summary, Pine State urges the Committee, the Legislature and the Governor to not impose this tax increase. It is not a fair tax; it is imposed upon a small minority of Maine citizens and creates some significant and detrimental impacts on small, family-owned Maine businesses. Years ago there were 15 family owned convenience store distributors in Maine. Due to the very high costs of business imposed by Maine, like those discussed earlier, that number is now only 3. Due to these costs, the most significant players in the market today are large national distributors, the principal one being controlled by billionaire Warren Buffet. These large corporations are more able to afford these increasing costs. We urge you to consider the impact of such a high tax not only on a small portion of Maine's citizens, but also on small family run Maine businesses that are trying to survive in difficult economic circumstances.

Therefore, we urge you to remove Part T from the budget and ask the Governor to seek other means to balance the budget that are fair and equitable to all Maine citizens. Thank you.

WSJ 3/2/07 P. B1.

# Cigarette-Tax Disparities Are a Boon for Border Towns

By AMIR EFRATI
*Larchwood, Iowa*

SINCE JAN. 1, this town of 800 in the northwest corner of Iowa has been deluged by thousands of visitors, and they haven't come to see the sights. It's for the smokes.

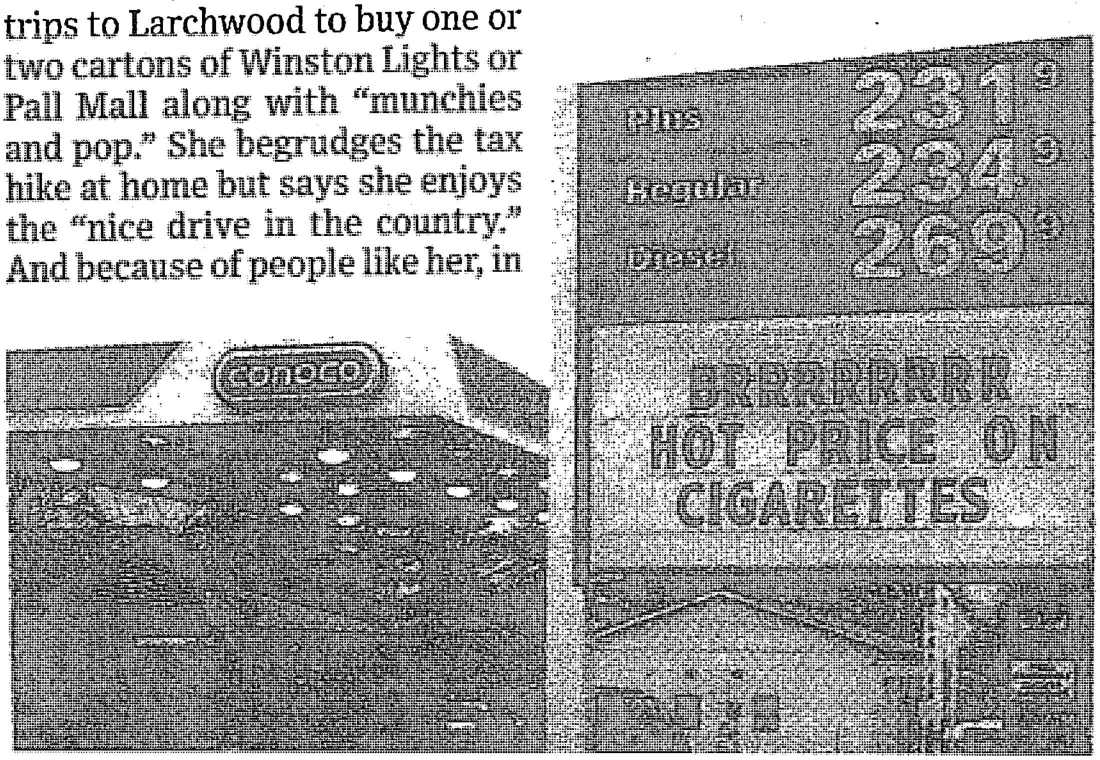
On the first day of 2007, the cigarette tax in the neighboring state of South Dakota jumped from 53 cents a pack to $1.53, making a carton cost at least $11.70 more than a carton in Iowa. Immediately, hordes of South Dakotans crossed the border into Iowa, many of them heading for Larchwood, a 20-mile drive from Sioux Falls, South Dakota's largest city.

Julie Carter, a waitress from Sioux Falls, say she makes weekly trips to Larchwood to buy one or two cartons of Winston Lights or Pall Mall along with "munchies and pop." She begrudges the tax hike at home but says she enjoys the "nice drive in the country." And because of people like her, in the month of January, Larchwood Mini Mart sold $160,000 of cigarettes, triple the amount sold all of last year. "It's a gold rush," says owner Larry Zuraff.

It's happening elsewhere. In the past six years, some 43 states, as well as dozens of cities and counties, have raised cigarette taxes, sometimes by $1 a pack (or $10 for a carton of 10); that has created greater price differentials and increased the incentives for heavily taxed smokers to drive great distances for cheaper smokes, particularly in lower-income areas.

For decades, people have crossed state borders for cheaper liquor, gasoline and cigarettes. Michael Lovenheim, a graduating University of Michi-

*Please turn to the next page*



ing activities. The ... electronic brokerage said in its annual report filed with the SEC that the commission is looking into whether E*Trade Capital Markets LLC placed trades in a given security before placing an order on a client's behalf to trade the same

firm found to have engaged ... trading-ahead activity to the detriment of its customers during that time period." E*Trade said it is cooperating with the SEC investigation and potential sanctions could have a material impact on the company's financial results.

lif., says it verifies the information using speech-recognition technology that picks out words in the audio track. It also employs people in India to make sure that videos purporting to be about sport-utility vehicles, for example, are what they say they are. Internet executives say amateur video creators often lie about

terview he did with his wife ... graphical segment that ran on Fox News. Mr. Biden's YouTube site features several home-made videos shot during a recent visit to Iowa.

On YouTube, candidates "can reach an audience they've had difficulty reaching in the past," says Jordan Hoffner, YouTube's

popular of any 2008 presidential candidates—has been viewed more than 48,500 times and some 1,900 people have subscribed. By contrast, pop princess Ashley Tisdale's YouTube homepage has been viewed more than a million times and has more than 13,500 subscribers.

# Cigarette-Tax Disparities Benefit Border Towns

*Continued from the prior page*

gan doctoral student in economics, estimated that as of 2002, before the latest round of tax increases, 13% of smokers crossed state borders to purchase cheaper cigarettes.

Today, other recent boomtowns attributed to cigarette-tax hikes include Sunland Park, N.M., population 16,000, where the difference from neighboring El Paso, Texas, as of Jan. 1, is about $5 a carton. Texans have descended on Sunland Park's only tobacco shop, which has seen a fivefold increase in cigarette sales, up to 4,500 packs a week. That helps the town due to a two-cent-a-pack municipal tax on top of a 0.7% municipal sales tax.

Hudson, Wis., a town of about 11,000 located 20 minutes from downtown St. Paul, Minn., has seen an influx of smokers from Minnesota since mid-2005, when that state's cigarette tax jumped to more than $7 a carton higher than Wisconsin's. The visitors from the Twin Cities, where smoking at restaurants is banned, are taking advantage of Hudson's smoking-friendly haunts.

Big winners are also located on the low-tax side of metropolitan areas situated on borders, such as Bellevue, Ky., ($3 tax per carton), across the Ohio River from Cincinnati ($12.50 tax per carton); and northern Delaware ($5.50 tax per carton), just south of Philadelphia ($13.50 tax per carton).

Federal cigarette taxes were first enacted in the mid-1800s and today stand at $3.90 a carton. On the state level, cigarette taxes date back to the early 1920s in Iowa, and the first major wave of increases took place during the Great Depression, according to the now-defunct U.S. Advisory Commission on Intergovernmental Relations.

State governments often tout cigarette taxes as a public-health initiative—a way to force some people to quit and to reap revenue from those whose habit leads to smoking-related illnesses. Most states raised cigarette taxes as a way to balance their budgets during hard times.

A 1964 surgeon general's report on smoking-related health problems spurred a new wave of state cigarette-tax hikes, tripling the average to $1.55 a carton by 1984. Another round of increases began during the recession of the late 1980s and early '90s and, most recently, during the economic downturn after the Sept. 11 terror attacks.

More than 378 billion cigarettes were sold in the U.S. in 2005, according to the Treasury Department. The percentage of adults who smoke stands at about 20%, down from more than half in the 1960s, according to the Centers for Disease Control and Prevention.

States raised a collective $14 billion from cigarette taxes for the fiscal year ended last June 30, but studies have pegged the percentage of revenue lost due to smuggling, Internet sales or other forms of tax evasion at anywhere from less than 10% to more than 20%.

Southeastern states have always had the lowest cigarette taxes, which has led to long-distance, organized smuggling from North Carolina ($3 tax per carton), for example, to states such as New Jersey ($25.75), where they are sold to retailers. The black market also includes counterfeit cigarettes from countries such as China.

Indian tribes, which aren't required to charge state levies, have been major beneficiaries of the tax increases. For years they have enticed nontribal members to buy from stores on their land or on the Internet, depriving states of revenue.

Most states have laws prohibiting residents from bringing in more than a stipulated amount of cigarettes or liquor on which the home state's tax hasn't been paid. In South Dakota, bringing back even one pack from Iowa for personal use is technically illegal, though it's hardly enforceable. On the west side of the state, smokers are making the 120-mile round trip from Rapid City, to Beulah, Wyo., where cigarettes are at least $8.70-per-carton cheaper.

At the South Dakota Department of Revenue and Regulation, Michael Kenyon, director of property and special taxes, says the state is still assessing the problem. And while South Dakotans assess, Iowans prosper.

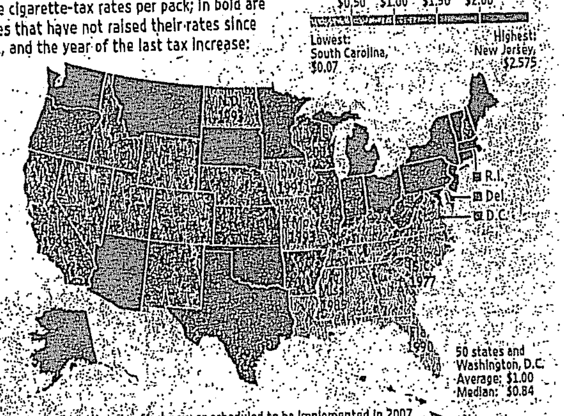
Larchwood is particularly fortunate, favored as it is by proximity to the border and the Sioux Falls metropolitan area (pop. 200,000), and the absence of nearby competitors. At the town's two service stations, sales of gasoline, food and other products are up about 20%.

At Larchwood's only grocery store, overall sales are up as much as $1,500 a week. Mayor Leonard Vanden Bosch says Larchwood could take in up to $15,000 in extra sales-tax revenue this year. But

Larchwood's luck may turn. The Iowa legislature could raise the the cigarette tax by up to $10 a carton, to $13.60, which would almost negate any savings.

## Smoke Signals

State cigarette-tax rates per pack; in bold are states that have not raised their rates since 2001, and the year of the last tax increase:




Note: Rates reflect those in effect now or scheduled to be implemented in 2007
Source: Campaign for Tobacco-Free Kids

# Viacom's Comedy Central Aims for Laughs in Germany

*Continued from the prior page*

in other countries as well.

The moves are part of a broad overhaul of the overseas business of Viacom's MTV Networks division. Since Sumner Redstone gained control of Viacom in 1987, the company has pursued an ambitious international expansion with Nickelodeon and MTV. The music channel alone has 46 international channels and reaches 162 countries.

The strategy made MTV one of the most recognizable global brands but hasn't done as much for Viacom's bottom line. Last year, the company's international business accounted for about 10% of Viacom's $11.5 billion revenue but barely broke even, according to a person familiar with the situation.

Viacom's new management team, which came on board after Chief Executive Tom Freston was fired in September, has ordered a sweeping restructuring of its overseas operations.

The new strategy is to focus on big markets, such as Germany and the United Kingdom, and scale back MTV Networks' presence in some smaller ones such as Thailand and the Philippines. There, it will shift from owning the channels to licensing its brands to a local partner. Yesterday, Viacom said would lay off 250 people as part of the restructuring of its international business.

"Our job is to build an international operation that we hope will be as strong as Viacom is in the U.S.," Mr. Redstone says.

The expansion of Comedy Central is a key test of its new approach. Viacom operates several comedy channels under the Paramount brand in Europe. In coming years, it plans to bring those channels under the Comedy Central umbrella with local content.

With programs like "The Daily Show" with Jon Stewart, "South Park" and "The Colbert Report," Comedy Central has built a loyal following in the U.S.

But repeating its success abroad won't be easy. Taking comedy overseas has been a tricky undertaking for U.S. entertainment companies, such as Time Warner Inc. and Walt Disney Co., because American humor doesn't always translate to other cultures. For instance, while HBO's relationship-focused "Sex and the City" was big hit in Germany, the ironic humor of "Seinfeld" bombed.

Even so, Germany's status as Europe's biggest and richest market has made it an attractive, if elusive, prize for foreign media companies. Comedy Central is Germany's only basic cable channel devoted to humor, but it has plenty of competition on Germany's larger broadcasters. Public broadcasters offer a steady helping of comedy shows including the popular talk show with comedian Harald Schmidt. ProSiebenSat.1, a commercial broadcaster, offers digital subscribers a comedy channel.

In Germany, Comedy Central's original programming is a mix of traditional stand-up and sketch shows. Some of the programs, such as "Badesalz," a half-hour show of skits in local German dialect, showcase established comedians. Others feature relative unknowns.

Such programming has generated buzz about the channel. Its viewership is about 50% higher than that of the Viacom-owned music channel, Viva Plus, that it replaced, though it is still very small. However, it's been most successful among men ages 14 to 49, a coveted demographic for advertisers. New advertisers include car maker **Nissan Motor Co.** and drinks maker **Red Bull GmbH**.

Viacom says it plans to continue to invest in local programming, but the majority of Comedy Central's schedule consists of dubbed U.S. and U.K. comedies, including "Stacked," starring Pamela Anderson.

Mr. Redstone defends Viacom's strategy on comedy, saying he faced similar doubts 20 years ago about MTV, which critics derided as a fad. "In every place in the world, people are interested in comedy, just like with music and kids" programming," he says.

Last month the 83-year-old Hollywood mogul met with German government officials. Mr. Redstone, famous for his frank manner, said the state of Bavaria should grant Viacom's cable channels better distribution in return for Viacom's investment in the area.

"When you need something and want something, why not lay it on the line?" he says.

An ad for Viacom's recently launched German version of Comedy Central.

WSJ.COM

ONLINE TODAY: Watch clips from Comedy Central Germany at WSJ.com/Video.

MAINE COALITION ON SMOKING OR HEALTH

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# Testimony of the Maine Coalition on Smoking or Health In Support of LD 499's Increase in Maine's Tobacco Taxes

*March 6, 2007*

Senator Rotundo, Representative Fischer, Senator Perry, Representative Piotti, members of the Joint Standing Committee on Appropriations and Financial Affairs and the Joint Standing Committee on Taxation. My name is Becky Smith. I am the Executive Director of the Maine Coalition on Smoking or Health. We are a statewide coalition of over fifty organizations and individuals working together to improve the health of Maine citizens by eliminating tobacco addiction and exposure to secondhand smoke. I am here on behalf of the Coalition to support the proposal in LD 499 to raise Maine's taxes on cigarettes, smokeless tobacco, and other tobacco products. I am also here to say that $1.00 is not enough. If we're going to meet our State Health Plan goal of a 14% youth smoking rate by 2008, we need an even more aggressive approach.

There are some who are shocked by the idea of a $1.50 per pack increase, but that's exactly the reaction that makes it work. If a cigarette price increase isn't significant, young people will work it into their budgets. Smokers won't notice it and fewer will quit because of it. Nicotine is as addictive as heroin. Three quarters of smokers say they want to quit, but only one quarter are mentally and physically ready to do so. A big price increase can jolt many smokers into taking action and keep kids from becoming regular smokers.

We have first-hand evidence here in Maine of the tremendous impact a significant price increase can have. In 2005, in the weeks leading up to and following the $1 increase, calls to the Maine Tobacco HelpLine increased by 500% - that means every <u>day</u> they were fielding calls that normally came in over the course of one week. Unfortunately, that story doesn't end as well as we'd like because the call volume overwhelmed capacity and the HelpLine had to quickly reduce its hours of operation. It's a valuable lesson learned and we are pleased to see that this budget includes additional funding to help the smokers who are ready to quit as a result of this price increase.

Naturally, the myths and scare tactics about tobacco taxes have already begun. The tobacco companies like to say that a cigarette tax increase will cause smokers to drive to New Hampshire or turn to the Internet. They say that tobacco revenue is unstable and that cigarette taxes are unfair to poor people. There is no evidence in Maine to support any of these claims. In fact, given that low income people have the least ability to pay for the health impacts of tobacco use and the most to gain by quitting or cutting back. I've attached some additional information on some of these myths and the data that exposes them as nothing more than red herrings.

First, is a chart of New Hampshire's cigarette sales. It is quite obvious from this chart that Maine's past tobacco tax increases have not lead to a corresponding increase in New Hampshire. Sales in New Hampshire have often remained flat or fallen following a tax increase in Maine. The same can't be said of increases in Massachusetts. Massachusetts increases show an immediate impact on New Hampshire sales. The reality is that Maine does not have a large proportion of our population near enough to the border to make a difference—Massachusetts does. Besides, a vast majority of smokers buy their cigarettes in single packs, not cartons, and are not willing or able to travel very far to get them.

Another tobacco industry myth is that Maine will become a hub of cigarette smuggling. The reality is that Maine does not have the smuggling infrastructure or a population that is inclined to break the law. We don't have illegal street vendors on every corner, or the large cities that can support them. We also have strong enforcement of our existing cigarette tax laws.

What about the internet? The most recent Adult Tobacco Survey showed that less than 2% of Maine smokers buy cigarettes over the internet. That combined with credit card and delivery sales being limited, and increased enforcement by Maine Revenue Services and the internet sales myth does not hold up under scrutiny.

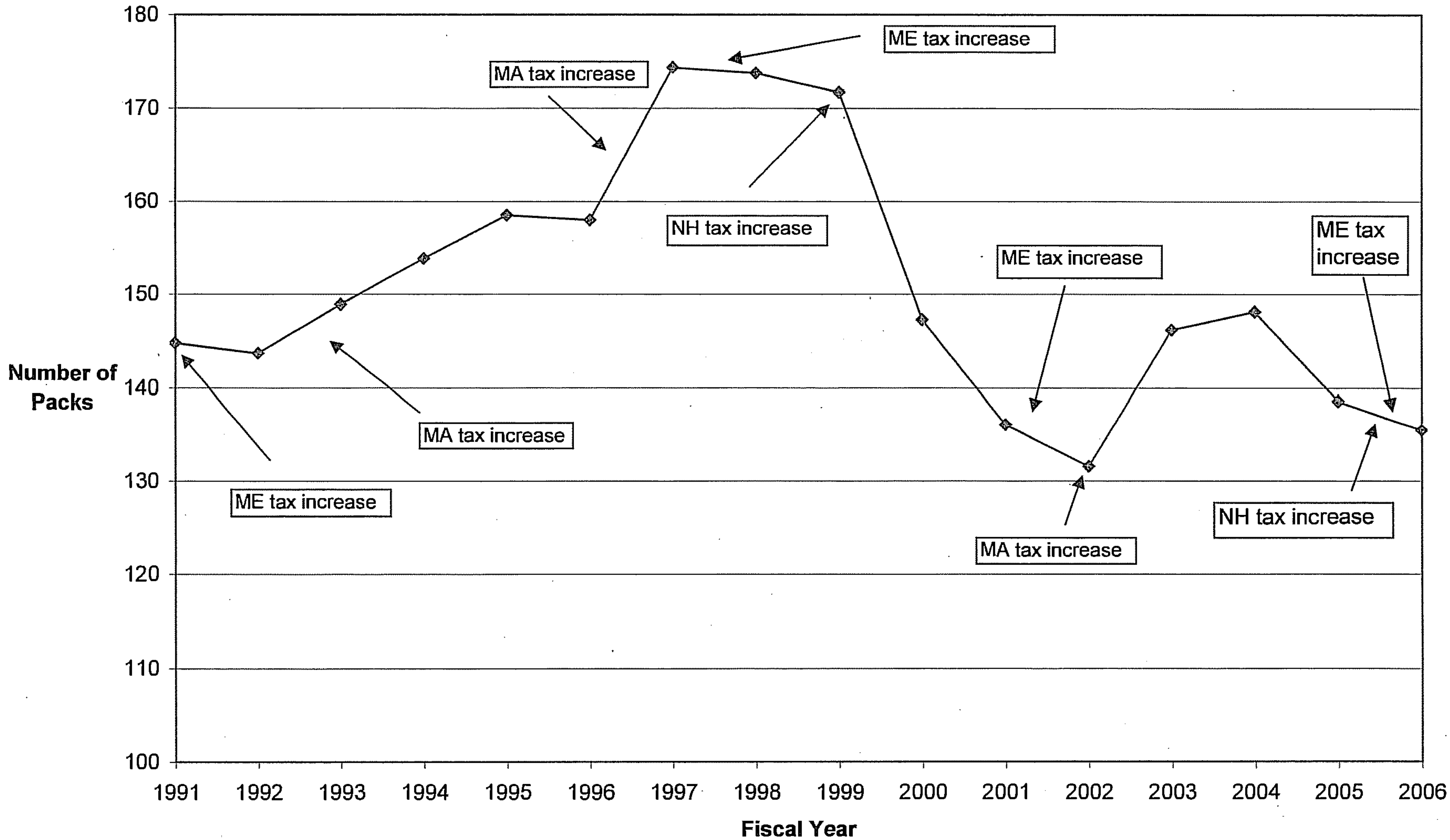
The fact is, raising the price of tobacco is sound health policy and an important piece of our comprehensive effort to reduce tobacco use.

Young people in Maine are under relentless pressure from the tobacco companies. The industry spends $74 million a year promoting their deadly products and turning Maine kids into the "replacement smokers" their internal industry documents describe. We need to do everything we can to help young people resist tobacco use. High prices have a big impact.

Thank you for your time and consideration of this proposal. We encourage you to support increasing Maine's cigarette tax by $1.50 per pack.

## New Hampshire's Per Capita Cigarette Sales

**(Source: Orzechowski and Walker, *The Tax Burden on Tobacco*, vol. 41, 2006)**



# *Tobacco Industry Myths*
## About Cigarette Excise Taxes

***Myth:*** **If Maine raises its cigarette tax, smokers will buy their cigarettes out of state.**

**Reality:** Cross-border sales are not a factor in Maine. Tax stamp sales data for New Hampshire show very clearly that Maine tax increases DO NOT affect New Hampshire sales while Massachusetts tax increases DO affect New Hampshire sales. Canadian cigarettes are also not a factor, since prices there are very high.

***Myth:*** **If Maine raises its cigarette tax, smokers will turn to the Internet.**

**Reality:** The most recent Adult Tobacco Survey shows that less than 2% of Maine smokers buy any cigarettes over the Internet. Although the future of Maine's very effective law regulating delivery sales of tobacco products is uncertain, the efforts of credit card companies to discourage use of their cards for illegal Internet sales will help keep tax avoidance and sales to youth under control.

***Myth:*** **Raising Maine's cigarette tax will encourage smuggling and support terrorism.**

**Reality:** Factors associated with smuggling (cultural acceptance, very large cities, existing networks) are not present in Maine. A comparison of tax stamp sales with consumption data suggests that smuggling is not an issue here.

***Myth:*** **The cigarette tax is a "regressive" tax that is unfair to low-income smokers.**

**Reality:** Low-income smokers are the group experiencing the greatest financial harm from tobacco use and are therefore the group most likely to benefit from quitting or cutting back. Smokers who quit or cut back substantially will actually save money, on both cigarettes and health care costs. Additionally, new revenue from tax increases can help fund programs such as MaineCare that directly benefit lower-income smokers.

***Myth:*** **Cigarette tax revenue is not a stable, predictable source of income.**

**Reality:** Compared to revenue from taxes such as the corporate income tax, cigarette tax revenue is very stable and predictable. Corporate income tax revenue fluctuated quite dramatically between 1997 and 2004, from a low of $77.4 million to a high of $150 million. Cigarette tax revenues decline gradually and very predictably as fewer kids smoke and smokers smoke less or quit.

***Myth:*** **Raising the cigarette tax will hurt Maine's economy and, in particular, retailers who sell cigarettes.**

**Reality:** There is no evidence that customers who quit smoking or buy fewer cigarettes reduce the number of visits to retail establishments. In fact, smokers who quit or cut back have more money to spend on other consumer items. The factor most likely to reduce retailer business is the price of gasoline. The factor most hurting the economy is health care costs. When smokers quit or cut back, health care costs are reduced for employers, the State, and smokers themselves.

(Prepared by the Maine Coalition on Smoking or Health – January 2007)

# Testimony in favor of proposed tobacco tax increase in LD 499

**Patsy Thompson Leavitt, NP**
**Family Nurse Practitioner**
**Executive Director, Leavitt's Mill Health Center Free Clinic**
**Buxton, Maine**

Past President, Maine Nurse Practitioner Association
Member, Maine Nurse Practitioner Association Legislative Committee

Senator Rotundo, Representative Fischer, Senator Perry, Representative Piotti, members of the Joint Standing Committee on Appropriations and Financial Affairs and the Joint Standing Committee on Taxation, I am the executive director and Nurse Practitioner at the Leavitt's Mill Health Center, a non-profit Free Clinic located in Buxton, Maine. Since opening in 2003, we have provided short-term primary care for more than 700 people without insurance. Ours is a young/middle adult population, and as such, the rate of tobacco use approaches 25%.

Like all health care providers, a major part of our program focuses on tobacco cessation. Since 2004 we have been a community access site for the Center for Tobacco Independence Nicotine Replacement (NRT) Voucher Program and have issued over 100 NRT vouchers.

Every day, I see first hand the devastating effects of tobacco on the human body. I also hear from tobacco users about their struggle with their addiction to tobacco and their sincere wish to quit. As I have worked with these clients and explore the factors that will help them most to quit, one theme that emerges is that of cost.

For many tobacco users I work with, the increasing cost of tobacco has either cut down their use, or motivated them to seriously consider quitting. As we explore "reasons to quit", cost becomes an important factor along with health concerns, social taboos, and family encouragement. As we discuss other health improvement strategies such as healthy eating, "quitters" quickly realize that their budget can stretch much further without the tobacco in their lives.

I strongly urge the passage of this additional tax as one more strategy to help people become free of tobacco and lead healthier lives.

American Heart Association®
Fighting Heart Disease and Stroke

**American Heart Association Testimony**
Regarding **LD499,** An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2008 and June 30, 2009

**Submitted by Dennise D. Whitley, MHA, Maine Advocacy Director**
**Public Hearing, March 6, 2007**

Good afternoon, Members of the Appropriations and Financial Affairs Committee and Members of the Joint Standing Committee on Taxation.

In 2002 heart disease and stroke related hospital charges totaled $211 million and accounted for one-fourth of all hospital charges in Maine. In addition, the cost of non-hospital related health care and disability in Maine is over $780 million dollars each year. Most of this cost and disability, to say nothing of the human toll, from cardiovascular disease is preventable. Tobacco smoking is still the number one modifiable risk factor for cardiovascular disease and stroke. To its credit, Maine's governors, legislatures and state departments working with public and private organizations, including the American Heart Association, have enacted tobacco control policies and funded programs over the past twenty years that have reduced exposure to second hand smoke and reduced the percentage of our youth who are smoking. We must continue to address smoking prevention and cessation programs with the same intensity and with the same determination and strength of will.

The American Heart Association is asking the Maine Legislature to pass an increase of $1.50 in the cigarette tax. It is a vital next step in our state's aggressive approach to decreasing the use of tobacco among Maine kids and adults.

Today, I'm bringing you the American Heart Association message, but I've also been asked to bring another important message to you from Patsy Thompson Leavitt, Nurse Practitioner who couldn't be here today. Patsy's dream was to start a free medical care clinic in Buxton, Maine where she lives and knows the plight of many folks in her community who do not have health insurance. In 2003, she started the Leavitt's Mill Health Center, a non-profit Free Clinic and she serves as a clinician in the Clinic and as the Executive Director. You have a copy of her testimony before you, I will quote just one important paragraph...."Every day I see first hand the devastating effects of tobacco on the human body. I also hear from tobacco users about their struggles with their addiction to tobacco and their sincere wish to quit. As I have worked with these clients and explore the factors that will help them most to quit, one theme that emerges is that of cost. For many tobacco users I work with, the increasing cost of tobacco has either cut down their use, or motivated them to seriously consider quitting. ...."

Following are the things you need to know about the health risks and costs of smoking. I know that you've heard them before, but increasing the cigarette tax to a $1.50 is a serious decision and a bold move, so the decision should be made in the context of the extremely serious health hazards that people risk when they are addicted to tobacco. Every year 2400 Maine citizens die early from tobacco use, including 200 from others' smoking. That's nearly seven deaths per day from smoking-related disease. All the while, 1700 Maine kids become daily smokers every year. Over one third of them will die early as a result. This is a tragedy that is completely preventable.

The good news is that today you are faced with a proposal that goes a long way toward preventing some of these tragic results by saving lives, lowering health costs, and raising revenue for other important health programs. Raising the price of tobacco products will do all those things.

There aren't many things that sell as well when their price goes up. Cigarettes are no exception. Raising the price of cigarettes is one of the single most effective ways to help smokers quit and keep kids from starting. Young people are particularly sensitive to the cost of tobacco products. For every 10% increase in the price of cigarettes, youth smoking rates can be reduced by as much as 6.5%. The attached chart details the tremendous benefits to a \$1.50 or even \$1.00 cigarette tax increase.

In the case of the proposal before you to add \$1.00 to the cigarette tax, over 10,000 young people would not become smokers and over 6000 adults would quit. A \$1.50 increase would mean 15,500 kids would avoid cigarettes and 9,200 Maine adults would finally quit. A \$1.00 increase translates to a savings of 4800 lives and \$238 million to the health care system. A \$1.50 increase would mean 7300 lives saved with the added benefit of \$359.7 savings to the health care system.

This is about Maine's future. If we want healthy kids, healthy adults, and by extension, a healthy business and financial climate, we need to keep our tobacco prices high. Keeping tobacco prices high is important health policy and a key component in Maine's ongoing efforts to prevent and treat tobacco addiction.

# Raising the price of cigarettes...

## ...for the Health of Maine's Children

| Tax Increase Per Pack | Youth Smoker Decline | Youth Alive Today Who Won't Become Smokers | Youth Future Smoking Caused Deaths Avoided |
|---|---|---|---|
| $1.00 | -12.2% | 10,300 | 3,200 |
| $1.50 | -18.4% | 15,500 | 4,900 |

## ...for the Health of Maine's Adults

| Tax Increase Per Pack | Fewer State Packs Sold per Year (Millions) | Current Adult Smokers Who Would Quit | Adult Smoking Caused Deaths Avoided |
|---|---|---|---|
| $1.00 | -15.0 | 6,100 | 1,600 |
| $1.50 | -21.8 | 9,200 | 2,400 |

## ...for the Health of Maine's Economy

| Tax Increase Per Pack | Additional New Cigarette Tax Revenue (Millions/Year) | Overall Long-Term Health Savings (Millions) |
|---|---|---|
| $1.00 | $66.0 | $238.2 |
| $1.50 | $90.0 | $358.7 |

Current State Cigarette Tax Rate: 200 cents per pack
State Cigarette Tax last raised: September 19, 2005

*Data compiled by Campaign for Tobacco-Free Kids, Washington, DC and Maine Revenue Services*
*Document prepared by the Maine Coalition on Smoking or Health*
*February 2007*

Senator Rotundo
Representative Fisher
Members of the Appropriations Committee

My name is Jinger Duryea. I am President of C. N. Brown Company and I am opposed to any additional tax being placed on tobacco products in the State of Maine. I am a member of the Maine Oil Dealers Association, and the New England Convenience Store Association. I agree with all of the testimony that these two organizations have presented.

I am not here to talk about the merits of this product. It is a product that is legal to sell in the State of Maine. I am a retailer who wants to sell this product and I want to sell this product in a responsible manner. Let us be clear and honest about what this issue is really about. It's a money grab. The State of Maine needs money and this segement of society is any easy mark.

Who am I? I am <u>not</u> Exxon/Mobil. Unlike Exxon Mobil, 2006 was a disastrous year for my company. Actually 2005 was initially shaping up to be equally disastrous, but due to a fluke in the market in the last quarter, 2005 ended on the positive side of the balance sheet. I'm sorry to report that I can not say the same for 2006. Additionally, 2007 is not looking particularly rosy either.

Perhaps I would feel differently about all this legislative assault if I were on solid footing, but we are not. I am fearful that this legislation will be the final blow for many of the companies I compete with as well as for me.

That said, allow me to share with you some information on this proposed tax increase.

**Governor's proposed increase the tobacco tax by $1.00 to $3.00 per pack:**

Currently, Maine's excise tax on a carton of cigarettes = $20.00
Proposed increase of $1.00 a pack would move that amount to $30.00 a carton which would establish Maine's cigarette excise tax as highest in the nation.

New Hampshire's current excise tax on cigarettes is $8.00 a carton, while South Carolina is at a whopping 70 cents a carton...yes, I said carton.

I have heard legislators say they hate cigarettes and it would be fine if the tax went even higher. But before we go there, allow me to share some information with you so you clearly understand what's at stake.

**Fact #1:**

As a business, I am keenly aware if I charge more than my competition, I will likely lose customers. Additionally, those customers that I lose buy more than just one product so the overall loss will be more than what I'm tracking. A lesson the State of Maine should learn.

**Fact #2:**

After Maine's last $1.00 increase in cigarette excise tax, my company was responsible for $283,000.00 in taxes just for the product that we had in inventory at each store, which is hard to come up with when you're not making any money. Additionally, the Big Apple Food Stores experienced the following in tobacco sales, these figures are based on a movement report of Philip Morris products which represents the lion's share of the Tobacco Category at my stores.

| | | |
|---|---|---|
| Decrease in sales: | | |
| Big Apple | Farmington, ME. | (16.5%) |
| Big Apple | Mexico, ME | (27.2%) |
| Big Apple | Rumford, ME | (20.8%) |
| Big Apple | Sanford, ME | (18.7%) |
| | | |
| Increase in sales: | | |
| Big Apple | Farmington NH | 12.5 % + |
| Big Apple | Tilton NH | 13.0 % + |
| Big Apple | Plymouth NH | 15.4 % + |
| Big Apple | Colebrook NH | 16.1 % + |

Some of the best customers we have at our New Hampshire stores are people with Maine plates on their vehicles. People who claim Mainers won't cross the border for cheaper cigarettes either haven't seen the Stateline Convenience Store in North Conway or aren't educated on why the State of Maine established special pricing on liquor in Kittery.

When we lose tobacco sales to long distance retailers, whether they are located in New Hampshire, North Carolina, off-shore or on the internet, the local "brick and mortar" stores still have to pay their property taxes and cover their expenses. So we look to replace that lost revenue with other opportunities like leasing some of the store space to Dunkin' Donuts, building beer caves, adding larger wine sections or applying for liquor licenses for our locations. Are the things I'm trying to do to save my company going to be next on your list of things to tax out of existence?

**Fact # 4:**

Did you know that you can fit 33,300 cartons of Marlboro's into a tractor trailer?

| | | |
|---|---|---|
| Follow the math; | 33,300 | cartons in a trailer |
| | x 10 | packs in a carton |
| | 330,000 | packs in a trailer |
| | x $2.93 | Difference between ME's and So. Carolina's tobacco tax |
| | = $975,690.00 | |

If you had use of a tractor trailer over the weekend, and you had a friend who owned a tobacco store that could sell 33,300 cartons of cigarettes in a short amount of time, would you be willing to run the risk of not being caught? Split the profit with the friend and make nearly half a million dollars on the slide. If you got caught for a first offense you probably wouldn't even serve any time... after all, it **is** a legal product. More than likely you would end up just paying a fine. How many people do you think in this State today would have a new profession tomorrow? As someone once said, the major difference between a tax and a fine is that the tax is usually higher.

The more value you add to the product, the more you put convenience store owners, cashiers and truck drivers in harms way. If one of our stores gets broken into after hours, the perpetrators no longer go after the cash register or the ATM machines; they steal the cartons of cigarettes. Side note: the State of Maine still gets paid the tax money on the stolen property. When a carton of cigarettes is worth $50.00, would be robbers of convenience stores have been known to demand cartons of cigarettes before they flee. If our supplier's truck driver is hauling a tractor trailer full of Marlboros, the value in that truck exceeds $2,000,000.00. How safe is that driver? If you think I'm making this stuff up please read the attached articles. It gets worse.

In summary, the tax increase isn't going to pull in the money your bean counters claim it's going to. It will put numerous retailers out of business, which will result in a lot more people in the unemployment line. Those retailers who remain will be placed in harms way... along with their employees and suppliers employees.

Thank you for your time I would be willing to answer any questions that you may have.

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**ELECTION 2006**

THE PROPOSITIONS

# CIGARETTE TAX HIKE

## No: Smugglers and thieves await passage

**By Patrick Fleenor**

Beginning in October 2000, three East County men went on a six-month crime spree, robbing at least 20 gas stations and convenience stores in the San Diego area. Armed with semi-automatic weapons, they burst in, assaulted clerks and customers, and cleaned the stores out of *cigarettes*.

Why did the thieves take cigarettes and not the Twinkies or the razor blades or just the cash?

The answer, of course, is taxes. Federal and state cigarette tax hikes have turned a pack of cigarettes into a gold mine for criminals, spawning a massive black market that makes it easy for thieves to quickly unload stolen cigarettes for cash.

The San Diego group's luck ran out with an arrest in April 2001, but similar gangs across California and smugglers all over the world are eagerly awaiting a Yes on Proposition 86, which would double, triple or quadruple their profit margins.

In addition to encouraging theft, high cigarette taxes have led to staggering levels of cigarette smuggling into the state and casual tax evasion by consumers. The Board of Equalization has the tough assignment of enforcing cigarette taxes, and it admits that about 300 million untaxed packs are sold in California each year despite requiring elaborately printed tax stamps to be affixed to each pack.

When deciding whether to vote Yes on Proposition 86 to raise the state's cigarette tax from 87 cents to $3.47, the nation's highest rate, Californians should weigh the severe law enforcement problems that come with being the preferred destination of cigarette smugglers.

New York City is currently that destination, with a tax of $3, and cigarette bootleggers work the streets just like drug dealers.

Before his murder in November 2003, teenager Cody Knox usually sold bootleg cigarettes on the corner of Fulton and Nevins streets in Brooklyn. Naively acting as if he were in a legitimate business, he cut his price and expanded his territory. Nearby street dealers showed Knox where price cutting can lead in a black market — they stabbed him to death. Prosecutor Anna-Sigga Nicolazzi stated the obvious at the trial of one of his murderers, "Obviously he wasn't happy about (the competition)."

Knox's death was one of many felonies caused by the cigarette turf war. By shifting the commerce from the corner store to the street corner, New York's high cigarette taxes have diverted billions of dollars from legitimate business and government coffers to criminals, exposing many average citizens to violence. Does California want to emulate that?

When deciding whether to vote Yes on Proposition 86 Californians should weigh the severe law enforcement problems that come with being the preferred destination of cigarette smugglers.

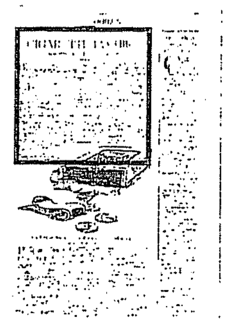
California has a long, bizarre history of cigarette taxes and crime. During the 1960s, '70s and early '80s, the tax was low so the crime was tame: mostly illegal purchases on military bases and Indian reservations. Then in November 1988 voters approved Proposition 99, which raised the tax from 10 cents to 25 cents.

The new tax set off a wave of cigarette thefts across the state. As one Orange County sheriff's lieutenant noted matter-of-factly, "It's like anything else — when something becomes valuable enough, it will be stolen."

With a quarter per pack at stake, it was suddenly possible for smugglers to profit $50,000 for every tractor-trailer load of cigarettes smuggled into the state. In the late '90s the so-called Master Settlement Agreement between the tobacco companies and the state attorneys general added about 50 cents in tax to each pack, and California passed another tax hike at the ballot, raising its state tax to 87 cents. That tractor-trailer full of untaxed cigarettes was suddenly worth about $250,000 to a smuggler, and the result was predictable.

Armed robbery, kidnapping, and even attempted murder have been committed, all because of a hard-to-enforce tax that dangles easy money in front of the criminal element. If Proposition 86 becomes law, that same tractor-trailer will be worth about $1.2 million in stolen tax revenue.

Sales of tax-paid cigarettes will drop like a



rock, and law enforcement will be completely overwhelmed. Not only must it try to intercept shipping containers filled with counterfeit cigarettes at the ports of Long Beach and Los Angeles, it will also have to deal with Web-based foreign firms that promise to defy tax authorities and ship tax-free cigarettes directly to customers in unmarked packages.

A good argument can be made that Californians should keep the state's cigarette tax low out of mercy to the usually low-income people who smoke, but the state's criminal history argues even more forcefully for a low tax. Convenience store clerks and the law enforcement community are the ones who'll suffer most from the crime wave that has engulfed every state foolish enough to enact the nation's highest cigarette tax.

**Fleenor** is chief economist at the Tax Foundation, a nonprofit tax research group in Washington, D.C. His newest study of crime and cigarette taxes is "California Schemin': Cigarette Tax Evasion and Crime in the Golden State" at www.taxfoundation.org.