

# MAINE STATE LEGISLATURE

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# 119th MAINE LEGISLATURE

## FIRST REGULAR SESSION-1999

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Legislative Document

No. 1824

S.P. 642

In Senate, March 11, 1999

**An Act to Encourage Equity Equivalent Loans or Investments in  
Community Development Financial Institutions.**

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Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "Joy J. O'Brien".

JOY J. O'BRIEN  
Secretary of the Senate

Presented by Senator HARRIMAN of Cumberland.  
Cosponsored by Senator LONGLEY of Waldo, Representative: CIANCHETTE of South  
Portland.

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Be it enacted by the People of the State of Maine as follows:

Sec. 1. 36 MRSA §5206, as amended by PL 1997, c. 746, §14 and affected by §24, is repealed and the following enacted in its place:

**§5206. Franchise tax on financial institutions**

A tax is imposed for each calendar year or fiscal year ending during that calendar year upon the franchise or privilege of doing business in this State of every financial institution that has Maine net income or Maine assets and that has a substantial physical presence in this State sufficient to satisfy the requirements of the due process and commerce clauses of the United States Constitution. A financial institution is subject to tax under this section even if it is treated as a partnership, S corporation or entity disregarded as separate from its owner for federal income tax purposes under the Code.

1. Franchise tax amount. The tax is the sum of:

A. One percent of the financial institution's Maine net income; and

B. Eight cents per \$1,000 of the financial institution's Maine assets.

3. Credit against tax. In each taxable year in which a financial institution sustains a book net operating loss, a credit must be allowed against the franchise tax on assets under subsection 1, paragraph B. The credit must be computed by multiplying the book net operating loss by the applicable franchise tax rate imposed by subsection 1, paragraph A. The total amount of any credit allowed may not exceed the franchise tax on assets due under subsection 1, paragraph B. In any tax year in which there is excess credit, the excess credit must be carried forward for no more than the next 5 tax years and may be applied against the tax computed under subsection 1.

5. Adjustment to Maine net income. For purposes of this section, Maine net income must be decreased, for taxable years ending in 2000, by an amount equal to the difference between the income earned on an equity equivalent loan and the income that would have been earned on a market rate loan.

Sec. 2. 36 MRSA §5206-D, sub-§7-A is enacted to read:

7-A. Equity equivalent loan. "Equity equivalent loan" means a loan made at a below market rate in accordance with regulations of the United States Office of Comptroller of the Currency to a nonprofit community development financial institution located in this State.

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## SUMMARY

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6 This bill encourages investment in community development  
8 financial institutions located in the State by allowing financial  
10 institutions that make equity equivalent loans to these community  
12 development financial institutions a tax deduction equal to the  
14 difference between the income earned on the equity equivalent  
loan and the income that would have been earned if the loan had  
been made at market rates. The bill also makes technical  
corrections to the format of the Maine Revised Statutes, Title  
36, section 5206; the substantive change to that section appears  
in Title 36, section 5206, subsection 5.