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FIRST SPECIAL SESSION-2005

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H.P. 1171	House of Representatives, May 5, 2005

An Act To Reduce Income Taxes and Encourage Economic Growth in Maine

Reference to the Committee on Taxation suggested and ordered printed.

Millicent M. MacFarland
MILLICENT M. MacFARLAND
Clerk

Presented by Representative WOODBURY of Yarmouth. (GOVERNOR'S BILL)
Cosponsored by Senator PERRY of Penobscot.

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

PART A

Sec. A-1. 36 MRSA §5111, first ¶, as amended by PL 1999, c. 731, Pt. T, §1, is further amended to read:

A tax is imposed ~~for each taxable year beginning on or after January 1, 2000,~~ on the Maine taxable income of every resident individual of this State. The amount of the tax is determined as provided in this section, except that the rates provided in this section for tax years beginning on or after January 1, 2005 must be adjusted as provided by section 5111-C.

Sec. A-2. 36 MRSA §5111, sub-§1-B, as enacted by PL 1999, c. 731, Pt. T, §3, is amended to read:

1-B. Single individuals and married persons filing separate returns; tax years beginning 2002 and 2003. For tax years beginning ~~on or after January 1,~~ in 2002 or 2003, for single individuals and married persons filing separate returns:

If Maine ~~Taxable~~ taxable income is:	The tax is:
Less than $4,200	2% of the Maine taxable income
At least $4,200 but less than $8,350	$84 plus 4.5% of the excess over $4,200
At least $8,350 but less than $16,700	$271 plus 7% of the excess over $8,350
$16,700 or more	$856 plus 8.5% of the excess over $16,700

Sec. A-3. 36 MRSA §5111, sub-§1-C is enacted to read:

1-C. Single individuals and married persons filing separate returns; tax years beginning after 2003. For tax years beginning on or after January 1, 2004, for single individuals and married persons filing separate returns:

If Maine taxable income is:	The tax is:
Less than $4,350	2% of the Maine

	taxable income
At least $4,350 but less than $8,650	$87 plus 4.5% of the excess over $4,350
At least $8,650 but less than $17,350	$281 plus 7% of the excess over $8,650
$17,350 or more	$890 plus 8.5% of the excess over $17,350

Sec. A-4. 36 MRSA §5111, sub-§2-B, as enacted by PL 1999, c. 731, Pt. T, §5, is amended to read:

2-B. Heads of households; tax years beginning 2002 and 2003. For tax years beginning ~~on or after January 1,~~ in 2002 or 2003, for unmarried individuals or legally separated individuals who qualify as heads of households:

If Maine ~~Taxable~~ taxable income is:	The tax is:
Less than $6,300	2% of the Maine taxable income
At least $6,300 but less than $12,500	$126 plus 4.5% of the excess over $6,300
At least $12,500 but less than $25,050	$405 plus 7% of the excess over $12,500
$25,050 or more	$1,284 plus 8.5% of the excess over $25,050

Sec. A-5. 36 MRSA §5111, sub-§2-C is enacted to read:

2-C. Heads of households; tax years beginning after 2003. For tax years beginning on or after January 1, 2004, for unmarried individuals or legally separated individuals who qualify as heads of households:

If Maine taxable income is:	The tax is:
Less than $6,550	2% of the Maine

	taxable income
At least $6,550 but less than $13,000	$131 plus 4.5% of the excess over $6,550
At least $13,000 but less than $26,050	$421 plus 7% of the excess over $13,000
$26,050 or more	$1,335 plus 8.5% of the excess over $26,050

Sec. A-6. 36 MRSA §5111, sub-§3-B, as enacted by PL 1999, c. 731, Pt. T, §7, is amended to read:

3-B. Individuals filing married joint return or surviving spouses; tax years beginning 2002 and 2003. For tax years beginning ~~on or after January 1,~~ in 2002 or 2003, for individuals filing married joint returns or surviving spouses permitted to file a joint return:

If Maine ~~Taxable~~ taxable income is:	The tax is:
Less than $8,400	2% of the Maine taxable income
At least $8,400 but less than $16,700	$168 plus 4.5% of the excess over $8,400
At least $16,700 but less than $33,400	$542 plus 7% of the excess over $16,700
$33,400 or more	$1,711 plus 8.5% of the excess over $33,400

Sec. A-7. 36 MRSA §5111, sub-§3-C is enacted to read:

3-C. Individuals filing married joint return or surviving spouses; tax years beginning after 2003. For tax years beginning on or after January 1, 2004, for individuals filing married joint returns or surviving spouses:

If Maine taxable income is:	The tax is:

Less than $8,700	2% of the Maine taxable income
At least $8,700 but less than $17,350	$174 plus 4.5% of the excess over $8,700
At least $17,350 but less than $34,700	$563 plus 7% of the excess over $17,350
$34,700 or more	$1,778 plus 8.5% of the excess over $34,700

Sec. A-8. 36 MRSA §5111-C is enacted to read:

§5111-C. Reductions in individual income tax rates

1. Rates reduced. For tax years beginning on or after January 1, 2005, the tax rates contained in section 5111, subsections 1-C, 2-C and 3-C must be adjusted as follows.

A. For tax years beginning in 2005, the applicable tax rates are those specified in section 5111, subsections 1-C, 2-C and 3-C except that the rate of 8.5% is reduced to 8.45%.

B. For each tax year beginning in 2006 and 2007, the tax rate that was applicable in the immediately preceding tax year must be multiplied by an amount equal to the indexing suspension factor determined in accordance with subsection 3.

C. For each tax year beginning in 2008 and 2009, the tax rate that was applicable in the immediately preceding tax year must be reduced by the rate reduction factor determined in accordance with subsection 2. The resulting rate must be multiplied by the indexing suspension factor determined in accordance with subsection 3.

D. For each tax year beginning after 2009 but before 2018, the rate that was applicable in the immediately preceding tax year must be reduced by the rate reduction factor determined in accordance with subsection 2.

E. For tax years beginning in or after 2018, the rates as determined for tax years beginning in 2017 apply.

The rates determined pursuant to this subsection must be rounded up to the nearest 1/100 of a percentage point. The State Tax Assessor shall incorporate the changes arising from this section into the forms, instructions and withholding tables for the appropriate tax years.

2. Rate reduction factor. The rate reduction factor is 1% of the tax rate provided by section 5111 for tax years beginning on or after January 1, 2005, without taking into consideration the adjustments required by this section except for subsection 1, paragraph A.

3. Indexing suspension factor. For tax years beginning after December 31, 2005 and before January 1, 2010, the State Tax Assessor shall determine the indexing suspension factor. The indexing suspension factor for each of these years is one minus an amount equal to the sum of the following amounts, divided by the total projected individual income tax liability for tax years beginning in the next calendar year:

A. The estimated increase in individual income tax liability for tax years beginning in the next calendar year arising from the suspension of indexing pursuant to section 5403, as estimated by the assessor, reduced by:

(1) The amount of estimated revenue foregone for tax years beginning in the next calendar year as a result of the increase from $2,000 to $4,750 of the credit contained in section 5219-N, subsection 1, as estimated by the assessor; and

(2) The amount of estimated revenue foregone for tax years beginning in the next calendar year as a result of the decrease in the tax rate from 8.5% to 8.45% as provided in section 5111-C, subsection 1, paragraph A as applied in subsequent years, as estimated by the assessor.

The factor must be rounded up to the nearest 1/100 of a percentage point. The determination required by this subsection must be made on or about September 15th of the year preceding its application.

Sec. A-9. 36 MRSA §5203-C, sub-§5 is enacted to read:

5. Rates reduced. Beginning in 2005, and each subsequent calendar year thereafter through 2017, on or about September 15th, the State Tax Assessor shall, in accordance with this subsection and for taxable years beginning during the calendar year, adjust the tax rates contained in subsection 1, paragraph H, subparagraphs (1) and (2). Each tax rate contained in subsection 1, paragraph H, subparagraphs (1) and (2) as previously adjusted must be reduced in the same proportion to effect rates that negate any estimated increase in alternative minimum tax revenue for the current fiscal year resulting solely from reductions in individual income tax rates under section 5111-C. Each rate reduced in accordance with this subsection must be rounded up to the nearest 1/100 of a percentage. The rates reduced in accordance with this subsection applicable to tax years that begin in 2017 are the rates that apply to tax years that begin after 2017.

Sec. A-10. 36 MRSA §5219-N, sub-§1, as amended by PL 2003, c. 390, §48, is further amended to read:

1. Generally. Except as provided in subsection 2, an individual whose Maine taxable income determined as if the individual were a resident individual for the entire year is ~~$2,000~~ $4,750 or less is allowed a credit equal to the tax otherwise imposed on that individual by this Part. In no case may this credit reduce the Maine income tax to less than zero.

Sec. A-11. 36 MRSA §5402, sub-§1-B, as enacted by PL 1999, c. 731, Pt. T, §8 and affected by §11, is amended to read:

1-B. Cost-of-living adjustment. The "cost-of-living adjustment" for any calendar year subsequent to calendar year 2008 is the Consumer Price Index for the 12-month period ending June 30th of the preceding calendar year divided by the Consumer Price Index for the 12-month period ending June 30, ~~2001~~ 2008.

Sec. A-12. 36 MRSA §5403, as repealed and replaced by PL 1999, c. 731, Pt. T, §10 and affected by §11, is amended to read:

§5403. Annual adjustments for inflation

Beginning in 2002, and each subsequent calendar year thereafter, except for calendar years 2004 to 2008, on or about September 15th, the State Tax Assessor shall multiply the cost-of-living adjustment for taxable years beginning in the succeeding calendar year by the dollar amounts of the tax rate tables specified in section 5111, subsections ~~1-B, 2-B and 3-B~~ 1-C, 2-C and 3-C as adjusted by section 5111-C. If the dollar amounts of each rate bracket, adjusted by application of the cost-of-living adjustment, are not multiples of $50, any increase must be rounded to the next lowest multiple of $50. If the cost-of-living adjustment for any taxable year is 1.000 or less, no adjustment may be made for that taxable year in the dollar bracket amounts of the tax rate tables. The assessor shall incorporate such changes into the income tax forms, instructions and withholding tables for the taxable year.

Sec. A-13. Application. That section of this Part that amends the Maine Revised Statutes, Title 36, section 5219-N, subsection 1 applies to tax years beginning on or after January 1, 2005.

PART B

Sec. B-1. 36 MRSA c. 105, sub-c. 4-C is enacted to read:

SUBCHAPTER 4-C

BUSINESS EQUIPMENT TAX EXEMPTION

§691. Definitions; exemption limitations

1. Definitions. As used in this subchapter, unless the context otherwise indicates, the following terms have the following meanings.

A. "BETR-expired property" means property that was eligible for property tax reimbursement under chapter 915, but is no longer eligible for such reimbursement due to the fact that reimbursements have been made for the entire length of time for which reimbursements were allowed under section 6652, subsection 1.

B. "Eligible business equipment" means qualified property that, in the absence of this subchapter, would first be subject to assessment under this Part on or after April 1, 2007 and BETR-expired property. "Eligible business equipment" includes, without limitation, repair parts, replacement parts, replacement equipment, additions, accessions and accessories to other qualified business property that first became subject to assessment under this Part before April 1, 2007 if the part, addition, equipment, accession or accessory would, in the absence of this subchapter, first be subject to assessment under this Part on or after April 1, 2007. "Eligible business equipment" also includes inventory parts.

"Eligible business equipment" does not include:

(1) Office furniture, including, without limitation, tables, chairs, desks, bookcases, filing cabinets and modular office partitions;

(2) Lamps and lighting fixtures;

(3) Property owned or used by an excluded person;

(4) Telecommunications personal property subject to the tax imposed by section 457; and

(5) Gambling machines or devices, including any device, machine, paraphernalia or equipment that is used or usable in the playing phases of any gambling activity as that term is defined in Title 8, section 1001, subsection 15, whether that activity consists of gambling between persons or gambling by a person involving the playing of a machine. "Gambling machines or devices" includes, without limitation:

(a) Associated equipment as defined in Title 8, section 1001, subsection 2;

(b) Computer equipment used directly and primarily in the operation of a slot machine as defined in Title 8, section 1001, subsection 39;

(c) An electronic video machine as defined in Title 17, section 330, subsection 1-A;

(d) Equipment used in the playing phases of lottery schemes; and

(e) Repair and replacement parts of a gambling machine or device.

(6) Property located at a retail sales facility exceeding 100,000 square feet of interior customer selling space and used primarily in a retail sales activity, unless the facility is owned by a business whose Maine-based operation derives less than 50% of its total annual revenue on a calendar-year basis from sales that are subject to Maine sales tax. For purposes of this subparagraph, the following terms have the following meanings:

(a) "Primarily" means more than 50% of the time;

(b) "Retail sales activity" means an activity associated with the selection and purchase of goods or the rental of tangible personal property; and

(c) "Retail sales facility" means a structure used to serve customers who are physically present at the facility for the purpose of selecting and purchasing goods at retail or for renting tangible personal property. "Retail sales facility" does not include a separate structure that is used as a warehouse or call center facility.

C. "Excluded person" means:

(1) A public utility as defined in Title 35-A, section 102, subsection 13;

(2) A person that provides radio paging service as defined in Title 35-A, section 102, subsection 15;

(3) A person that provides mobile telecommunications services as defined in Title 35-A, section 102, subsection 9-A;

(4) A cable television company as defined in Title 30-A, section 2001, subsection 2;

(5) A person that provides satellite-based direct television broadcast services; or

(6) A person that provides multichannel, multipoint television distribution services.

D. "Inventory parts" includes repair parts, replacement parts, replacement equipment, additions, accessions and accessories on hand but not in service and stocks or inventories of repair parts, replacement parts, replacement equipment, additions, accessions and accessories on hand but not in service and other machinery and equipment on hand for future use but not in service if acquired after April 1, 2006, regardless of when placed in service.

E. "Qualified property" means tangible personal property that:

(1) Is used or held for use exclusively for a business purpose by the person in possession of it or, in the case of construction in progress or inventory parts, is intended to be used exclusively for a business purpose by the person who will possess that property; and

(2) Either:

(a) Was subject to an allowance for depreciation under the Code on April 1st of the property tax year for which a claim for exemption under this subchapter is filed or would have been subject to an allowance for depreciation under the Code as of that date but for the fact that the property has been fully depreciated; or

(b) In the case of construction in progress or inventory parts, would be subject under the Code to an allowance for depreciation when placed in service or would have been subject to an allowance for depreciation under the Code as of that date but for the fact that the property has been fully depreciated.

"Qualified property" also includes all property that is affixed or attached to a building or other real estate if the property is used primarily to further a particular trade or business activity taking place in that building or on that real estate.

"Qualified property" does not include components or attachments to a building if they are used primarily to serve the building as a building, regardless of the particular trade or activity taking place in or on the building. "Qualified property" also does not include land improvements if they are used primarily to further the use of the land as land, regardless of the particular trade or business activity taking place in or on the land. In the case of construction in progress or inventory parts, the term "used" means intended to be used. "Qualified property" also does not include any vehicle registered for on-road use on which a tax assessed pursuant to chapter 111 has been paid or any watercraft registered for use on state waters on which a tax assessed pursuant to chapter 112 has been paid.

2. Additional limitations. The exemptions provided pursuant to this subchapter are limited pursuant to this subsection.

A. Exemption for certain energy facilities under this subchapter is limited as follows.

(1) The exemption provided by this subchapter does not apply to a natural gas pipeline, including pumping or compression stations, storage depots and appurtenant facilities used in the transportation, delivery or sale of natural gas, but not including a pipeline that is less than a mile in length and is owned by a consumer of natural gas delivered through the pipeline.

(2) The exemption provided in this subchapter does not apply to property used to produce or transmit energy primarily for sale. Energy is primarily for sale if

during the immediately preceding property tax year 2/3 or more of the useful energy is directly or indirectly sold and transmitted through the facilities of a transmission and distribution utility.

(3) For purposes of this paragraph, unless the context otherwise indicates, the following terms have the following meanings.

(a) "Transmission and distribution utility" has the same meaning as defined in Title 35-A, section 102, subsection 20-B.

(b) "Useful energy" is energy in any form that does not include waste heat, efficiency losses, line losses or other energy dissipation.

B. Pollution control facilities that are entitled to exemption pursuant to section 656, subsection 1, paragraph E are not entitled to an exemption under this subchapter, except if:

(1) The property is entitled to an exemption under section 656, subsection 1, paragraph E but has not yet been certified for exemption under that paragraph;

(2) The property has been placed in service after the December 1st immediately preceding April 1st of the tax year for which the exemption is sought but prior to April 1st of the property tax year for which the exemption is sought; and

(3) The taxpayer has submitted the required application for certification to the Commissioner of Environmental Protection prior to April 1st.

The exemption under this subchapter continues for property that meets the requirements of subparagraphs (1), (2) and (3) only until the certification for exemption under section 656, subsection 1, paragraph E has been granted. If the State Tax Assessor or an assessor denies an exemption on the ground that the property in question is entitled to exemption under section 656, subsection 1, paragraph E and the taxpayer appeals the denial, the State Tax Assessor or assessor shall, at the taxpayer's request, allow the taxpayer up to one year to obtain a statement from the Commissioner of Environmental Protection that the property at issue is not exempt under section 656, subsection 1, paragraph E. If the taxpayer timely produces such a statement or otherwise demonstrates that the property is not exempt under section 656, subsection 1, paragraph E, the State Tax Assessor or an assessor shall allow the exemption under this subchapter, but only for the year in question.

§692. Exemption of business equipment

1. Eligible business equipment exempt. Eligible business equipment is exempt from all taxation under this Part, except chapters 111 and 112.

2. Just value of exemption. In determining the just value of exempt business equipment, the assessor shall determine the just value of the property in the same manner as prescribed in section 701-A as if the property were subject to taxation.

3. Effect on state valuation. The percentage of just value of exempt business equipment to be included in the annual determination of state valuation under sections 208 and 305 is 75% for tax years 2007 and 2008 and 50% for tax year 2009 and subsequent tax years, except that 100% of the just value of BETR-expired property must be included in the annual determination of state valuation under sections 208 and 305.

4. Property tax rate. The value of exempt business equipment under this subchapter must be included in the total municipal valuation used to determine the municipal tax rate. For purposes of computing the municipal tax rate, for the 2007 and 2008 tax years, 75% of the value of business equipment exempt under this subchapter must be included in the total municipal valuation; and for 2009 and subsequent tax years, 50% of the value of business equipment exempt under this subchapter must be included in the total taxable municipal valuation; except that 100% of the value of BETR-expired property must be included in the total municipal valuation used to determine the municipal tax rate. The municipal tax rate as finally determined may be applied only to the taxable municipal valuation for that year.

§693. Forms; reporting

1. Reporting. On or before May 1st of each year, a taxpayer claiming an exemption under this section shall file a report with the assessor of the taxing jurisdiction in which the property would otherwise be subject to taxation. The report must identify the property for which exemption is claimed and must be made on a form prescribed by the State Tax Assessor or substitute form approved by the State Tax Assessor. The State Tax Assessor shall furnish copies of the form to each municipality in the State and the form must be made available to taxpayers prior to each April 1st. The assessor of the taxing jurisdiction may require the taxpayer to sign the form and make oath to its truth. Upon written request, the assessor may grant extensions of time to file the report. Failure to file the report on a timely basis, including any extensions of time, disqualifies the property involved from exemption for that tax year. The assessor of the taxing jurisdiction may require in writing that a taxpayer answer in writing all reasonable inquiries as to the property for which exemption is requested. A taxpayer has 30 days from receipt of such an inquiry to respond. Upon written request, a taxpayer is entitled to a 30-day extension to respond to the inquiry and the assessor may grant additional extensions upon written request. The answer to any such inquiry is not binding on the assessor.

All notices and requests provided pursuant to this subsection must be made by personal delivery or certified mail and must conspicuously state the consequences of the taxpayer's failure to respond to the notice or request in a timely manner.

If an exemption has already been granted and the State Tax Assessor subsequently determines that the property is not entitled to exemption, a supplemental assessment must be made within 3 years of the original assessment date with respect to the property in compliance with section 713, without regard to the limitations contained in that section regarding the justification necessary for a supplemental assessment.

2. False filing. An individual who knowingly gives false information for the purpose of claiming an exemption under this subchapter commits a Class E crime.

3. Continuation of eligibility. A person must annually file the report required by this section for all eligible business equipment, even though there may be no substantive change in the property from one year to the next.

§694. Duty of assessor; reimbursement by State

1. Examination and identification. The assessor shall examine each report pursuant to section 693 that is timely filed, determine whether the property is entitled to an exemption under this subchapter and determine the just value of the property.

2. Entitlement to reimbursement by State; calculation. Notwithstanding section 661, upon proof in a form satisfactory to the bureau, a municipality that has approved exemptions under this subchapter may recover from the State the taxes lost by reason of the exemption according to the following schedule:

A. For tax years 2007 and 2008, 75% of the property tax revenue lost; and

B. For tax year 2009 and subsequent tax years, 50% of the property tax revenue lost.

Notwithstanding paragraphs A and B, a municipality that has approved exemptions under this subchapter may recover from the State 100% of the property tax revenue lost due to the exemption of BETR-expired property. The bureau shall reimburse the Unorganized Territory Education and Services Fund for taxes lost by reason of the exemption according to the same schedule.

3. Information provided to State; deviations in assessment ratio. The assessor shall provide by June 1st annually any relevant information requested by the bureau for the purpose of determining the actual assessment ratio in use for personal property in the municipality. The certified ratio declared by the municipality must be considered accurate by the bureau if it is within 10% of the assessment ratio last determined by the bureau in its annual report of ratio studies. The assessor may submit additional information on the relevant assessment ratio to the bureau in order to prove that a different ratio should apply. The bureau may accept a certified ratio that deviates more than 10% from the bureau's most recent state valuation report only if the information submitted by the municipality clearly indicates that the certified ratio is more accurate than the assessment ratio contained in the bureau's most recent report.

4. Payments by State. Reimbursements to municipalities must be made as described in this subsection. A municipality claiming reimbursement under this section shall submit a claim to the bureau by November 1st of the year in which the exemption applies or within 30 days of commitment of taxes, whichever occurs later. The bureau shall review the claims and determine the total amount to be paid. The bureau shall certify and the Treasurer of State shall pay by December 15th of the year in which the exemption applies the amount that the bureau determines for that tax year. Municipal claims that are timely filed after November 1st must be paid as soon as reasonably possible after the December 15th payment date.

5. Reimbursement for state-mandated costs. The bureau shall reimburse municipalities and the Unorganized Territory Education and Services Fund for state-mandated costs in the manner provided in Title 30-A, section 5685.

§695. Denial of exemption; appeals

If the assessor determines that a property is not entitled to an exemption under this subchapter, the assessor shall provide a notice of denial, including the reasons for the denial, to the applicant by either personal delivery or certified mail. An applicant may appeal a denial of an exemption under this subchapter using the procedures provided in subchapter 8. If the assessor determines that a property receiving an exemption under this subchapter in any year within the 3 preceding years was not eligible for the exemption, the assessor shall immediately notify the bureau in writing.

§696. Supplemental assessment

If the assessor makes a determination under section 695 that property receiving an exemption under this subchapter was not entitled to an exemption under this subchapter, the assessor shall by means of a supplemental assessment assess the property for which the exemption was improperly received, plus costs and interest. The taxpayer may appeal the supplemental assessment in the same manner as other supplemental assessments. The supplemental assessment must be assessed and collected pursuant to section 713. The bureau shall deduct the amount of the portion of the supplemental assessment that pertains to any funds previously reimbursed to the municipality under section 694 from the next reimbursement issued to the municipality.

§697. Audits; determination of bureau

The bureau may audit the records of a municipality to ensure compliance with this subchapter. The bureau may independently review the records of a municipality to determine if exemptions have been properly approved. If the bureau determines that an exemption was improperly approved for any of the 3 years immediately preceding the determination, the bureau shall ensure, by setoff against other payments due the municipality under this subchapter or subchapter 4-B, that the municipality is not reimbursed for the exemption.

§698. Appeals

The bureau shall send notice to the taxpayer, in the manner and of the type provided for in section 151 in the case of a reconsideration decision, of any decision that an exemption was improperly or erroneously approved. The taxpayer may seek reconsideration pursuant to section 151 of any such decision. Notwithstanding any other provision of law, if a taxpayer does not timely request reconsideration of the bureau's decision under section 151, the local taxing jurisdiction must issue a supplemental assessment with respect to such property within 90 days after the bureau's determination. The taxpayer may not appeal that supplemental assessment except as to issues unrelated to the applicability of the exemption. Notwithstanding any other provision of law, if a taxpayer appeals a decision of the bureau to disqualify an exemption and does not prevail in that appeal, the local taxing jurisdiction must issue a supplemental assessment with respect to the property at issue within 90 days after the appeal has been resolved in the bureau's favor. The taxpayer may not appeal that supplemental assessment except as to issues unrelated to the applicability of the exemption. Notwithstanding any other provision of law, if a taxpayer appeals a decision of the bureau that an exemption was improperly or erroneously approved and the taxpayer prevails in that appeal, the bureau shall promptly restore any reimbursement to the municipality that was not made or was set off or otherwise denied the municipality under section 697.

§699. Legislative findings

The Legislature finds that encouragement of the growth of capital investment in this State is in the public interest and promotes the general welfare of the people of the State. The Legislature further finds that the high cost of owning qualified business property in this State is a disincentive to the growth of capital investment in this State. The Legislature further finds that the tax exemption set forth in this subchapter is a reasonable means of overcoming this disincentive and will encourage capital investment in this State.

Sec. B-2. 36 MRSA §6651, sub-§1, as amended by PL 2001, c. 396, §43, is further amended to read:

1. Eligible property. "Eligible property" means qualified business property first placed in service in the State, or constituting construction in progress commenced in the State, after April 1, 1995, but does not include property that qualifies for exemption pursuant to chapter 105, subchapter 4-C. "Eligible property" includes, without limitation, repair parts, replacement parts, additions, accessions and accessories to other qualified business property placed in service on or before April 1, 1995 if the part, addition, accession or accessory is first placed in service, or constitutes construction in progress, in the State after April 1, 1995, unless such property qualifies for exemption pursuant to chapter 105, subchapter 4-C. "Eligible property" also includes inventory parts.

SUMMARY

Part A increases the existing low-income tax credit threshold from $2,000 to $4,750. Individuals with Maine taxable income of not more than the threshold are not required to file a Maine income tax return. The increase in the threshold applies to tax years beginning after 2004 and is funded through tax year

2009 by suspending the annual inflation adjustment to the dollar bracket amounts of the individual income tax schedules.

Part A also reduces individual income tax rates in 3 ways. First, it reduces the top marginal tax rate from 8.5% to 8.45% for tax years beginning with 2005. Second, for tax years 2006 to 2009, it uses a portion of the revenue savings from the suspension of the annual inflation adjustment to permanently reduce the tax rates over the same period. The annual inflation adjustment is reinstated for tax years beginning after 2009. Third, starting with tax years beginning in 2008, the rates are further reduced 1% each year until the 2005 rates have been reduced by a total of 10% by virtue of this adjustment. This rate reduction is applied prior to, and is in addition to, the rate reduction funded from suspending the inflation adjustment. The rate reductions effected by Part A are permanent. The individual alternative minimum tax rates are also reduced to ensure that taxpayers do not become subject to the Maine alternative minimum tax solely as a result of the regular income tax rate reductions.

Part B establishes a property tax exemption for property of qualified businesses that is first subject to property tax assessment on or after April 1, 2007 in the absence of the exemption. Property first subject to property tax assessment prior to April 1, 2007 will remain eligible for the Business Equipment Tax Reimbursement, "BETR," program for the duration of the 12-year window for BETR program entitlement. Property that is no longer eligible for the BETR program because it has been subject to BETR reimbursement for the full 12-year period for BETR program entitlement is then eligible for the business equipment property tax exemption.

Part B further establishes the rate of reimbursement the State must pay to municipalities for property tax revenue lost as a result of the exemption. For the 2007 and 2008 property tax years, the rate of reimbursement is 75% and for 2009 and subsequent property tax years, the rate of reimbursement is 50%. Municipalities will be reimbursed 100% with respect to property that is no longer eligible for the BETR program because it has been subject to BETR reimbursement for the full 12-year period for BETR program entitlement.

Finally, Part B provides that business property that first became subject to property tax in the absence of the exemption on or after April 1, 2007 does not qualify for the BETR program.