STATE OF MAINE
119TH LEGISLATURE

Final Report
of the

COMMISSION TO STUDY SINGLE-SALES FACTOR APPORTIONMENT

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Commission To Study Single-Sales Factor Apportionment
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Executive Summary

This report concerns "formula apportionment," the method used by Maine and other states to divide up the taxable income of business entities that operate in more than one jurisdiction. Formula apportionment is an imperfect but necessary method for representing the income-producing activities of a multistate business in any given state. The statutory apportionment formula used in Maine contains 3 measures or factors -- payroll, property and sales -- to calculate the portion of the income of a multistate business that will be subjected to Maine income tax. Since 1991, Maine has "double-weighted" the sales factor, which means that a business' sales factor is weighted at 50%, while its payroll and property factors are weighted at 25% each. Some version of the 3-factor formula is used by a majority of states that impose a corporate income tax. The particular method considered by this study is one that uses only one measure or factor, namely sales, to determine the tax base. This method is sometimes referred to as "single-sales factor apportionment."

The impetus for this study was the introduction of a bill during the 1st Regular Session of the 119th Legislature and the complexity of this subject. The Joint Standing Committee on Taxation decided to carry over the bill to the 2nd Regular Session and proposed this study. A Joint Order (see Appendix A) was adopted to create the 11-member special commission, the Commission to Study Single-sales Factor Apportionment. The Commission consisted of legislators from the Joint Standing Committee on Taxation and the Joint Standing Committee on Business and Economic Development, representatives from Maine Revenue Services and the Department of Economic Community Development and two members of the public (see Appendix B for listing of Commission members). The Commission was charged with making a recommendation to the Joint Standing Committee on Taxation on advisability of adopting single-sales factor corporate income tax apportionment, a method used by states to determine how much of the income of a business operating in more than one state is subject to taxation in each state. The Commission met 4 times; the first meeting convened on September 8, 1999 and the last meeting was on December 1, 1999. The Commission analyzed several studies and literature related to the implementation of this method of apportionment in several other states, reviewed research conducted by Maine Revenue Services, Maine's State Planning Office and Mr. Dan Bucks, Executive Director of the Multistate Tax Commission and analyzed the trends and current methods of formula apportionment for multistate businesses.

The following reasons were offered for adopting single-sales factor apportionment:

- According to several studies and modeling conducted by the State Planning Office, single-sales factor apportionment has the potential to be an effective economic development incentive, reducing a disincentive to increasing investments in a property and payroll in Maine;

- The industries that were the greatest net beneficiaries from the implementation of single-sales factor apportionment in Maine are many of the same industries targeted for economic growth by Maine's economic

development strategic plan (i.e. technology industries, financial services, natural resource based industries, paper industry);

- Implementing single-sales factor apportionment shifts tax liability from multistate businesses with substantial investments in property and payroll relative to Maine sales to multistate businesses whose relative weighting of the sales factor exceeds their investments in Maine (as measured by the property and payroll factors); and

- If other states continue to adopt single-sales factor apportionment either for all industries or for certain targeted industries, Maine will be placed at a competitive disadvantage with respect to those states when it tries to attract new investments to Maine.

The following reasons were offered for retaining the current formula:

- A 3-factor formula using payroll, property and sales has been held out as the most equitable method of determining the income producing capability of a business in a particular state and the benefits derived from that state;

- Although determined by the United States Supreme Court in 1978 to be constitutional, single-sales factor apportionment discriminates against certain businesses, those predominantly based out-of state;

- Single-sales factor apportionment, if mandatory, will produce "winners" and "losers" in terms of changes in Maine tax liability with those experiencing an increase in their Maine tax liability out numbering the "winners" by almost a 2 to 1 margin; and

- With the uncertain effect of the "throwback" rule, which adds back certain out-of-state sales and federal government sales to the Maine sales factor, a predominantly Maine based company might actually experience a tax increase by the implementation of single-sales factor apportionment.

Recommendations of the Commission

The Commission to Study Single-sales Factor Apportionment was unable to agree on a unanimous recommendation on the adoption of the single-sales factor apportionment. However, all but 2 members of the Commission felt that Maine should adopt a single-sales factor apportionment method on either a limited or an optional basis. The Commission members were divided among the following recommendations:

1. Adopt single-sales factor apportionment but:

a. Limit this formula to manufacturing, financial services and "technology" industries only (6 of 11 members); or

b. Permit the taxpayer to elect the single-sales formula or the current double-weighted sales formula (3 of 11 members); and

2. **Do not change the apportionment method, but instead, reduce the corporate tax rate and eliminate corporate income tax brackets (2 of 11 members).**

The industry-specific implementation reduces the estimated revenue loss associated with this tax change. Those members that favored the industry-specific approach also felt this "economic development" incentive could be more effectively aligned with Maine's economic development strategic plan. Those members also felt that it was important to try to stop the erosion in Maine's manufacturing base.

Those that favored an elective or optional single-sales factor apportionment method did so to minimize the discriminatory impact of this tax change on certain businesses. However, this version of single-sales factor apportionment significantly increased the revenue loss to Maine.

The members against changing Maine's apportionment formula felt that the "tax fairness" arguments weighed out over the estimated economic effects and that a more equitable means of providing a tax incentive to businesses was to reduce Maine's corporate income tax rate and eliminate the brackets.

3. **Recommend that Maine Revenue Services collect information about the sales affected by the "throwback" rule on the corporate income tax form. (Unanimous Recommendation)**

I. Introduction

This report concerns "formula apportionment," the method used by Maine and other states to divide up the taxable income of business entities that operate in more than one jurisdiction. Formula apportionment is an imperfect but necessary method for representing the income-producing activities of a multistate business in any given state. The statutory apportionment formula used in Maine contains 3 measures or factors -- payroll, property and sales -- to calculate the portion of the income of a multistate business that will be subjected to Maine income tax. Since 1991, Maine has "double-weighted" the sales factor, which means that a business' sales factor is weighted at 50%, while its payroll and property factors are weighted at 25% each. Some version of the 3-factor formula is used by a majority of states that impose a corporate income tax. The particular method considered by this study is one that uses only one measure or factor, namely sales, to determine the tax base. This method is sometimes referred to as "single-sales factor apportionment."

The impetus behind this study was LD 1064, "An Act to Stimulate Job Creation and Investment in Maine by Amending the Income Tax Apportionment Formula," which was referred to the Joint Standing Committee on Taxation during the First Regular Session of the 119th Legislature. After having a public hearing and work session on the bill, the committee decided to carry the bill over to the 2nd Regular Session of the 119th Legislature and requested a special interim study of this complicated topic. A Joint Order was reported out of Committee and passed by the Legislature to propose a special commission, the Commission to Study Single-sales Factor Apportionment (see Appendix A for the enacted version of the Joint Order). That commission, referred to in this report as the Commission, consisted of 11 members, 5 members of the Joint Standing Committee on Taxation, 2 members of the Joint Standing Committee on Business and Economic Development, 2 ex-officio members representing the Maine Revenue Services and the Department of Economic and Community Development and 2 members of the public (see Appendix B for a listing of Commission members). The Commission was charged with:

- Gathering information pertaining to single-sales factor corporate income tax apportionment, including, without limitation, the experience of other states that have adopted single-sales factor formula apportionment; and

- Making recommendations to the Joint Standing Committee on Taxation as to the advisability of adopting single-sales factor formula apportionment in Maine, including any recommendations for legislation.

To accomplish these purposes, the Commission held 4 meetings after all initial appointments were made August 24, 1999. The Commission first met on September 8, 1999 and concluded its work December 1, 1999. To accomplish its mission the Commission did the following:

- Reviewed Maine's past and current apportionment methods for apportioning income of multistate businesses;

- Reviewed what other states are doing with respect to apportionment formulas;

- Reviewed studies related to the effect of implementation of single-sales factor apportionment in other states;

- Reviewed the potential effect of this tax change on the tax liabilities of businesses operating in Maine as well as the economic effect of this tax change; and

- Invited Mr. Dan Bucks, Executive Director of the Multistate Tax Commission (MTC), to present information on the history of apportionment of business income, the rationale for the equally weighted 3-factor apportionment formula adopted as part of the Uniform Division of Income for Tax Purposes Act (UDITPA) and supported by MTC and to comment on the arguments for and against single-sales factor apportionment.

II. Overview of Apportionment of Business Income

An overview of concepts related to taxation of business income is necessary to evaluate the rationale for the original adoption by Maine of UDITPA's corporate income tax apportionment formula and to weigh those arguments against the use of corporate income tax apportionment, specifically single-sales factor apportionment, as an economic development incentive.

Every state that taxes business income or profits is faced with the complicated task of determining its share of the taxable income of a business that operates in more than one state. In making this determination the states are subject to the constraints imposed by the Due Process and Commerce Clauses of the U.S. Constitution. The method used by states, including Maine, to determine their proper share of a multistate company's taxable income is called "formula apportionment." The use of a mathematical formula to divide up the tax base is generally considered the best way to reflect the means used by a multistate business to generate income within the various taxing jurisdictions in which it operates, as well as to represent the benefits received by the business from each of those jurisdictions. In an ideal world, each taxing jurisdiction would use the exact same apportionment formula and administer it in the same way to determine its piece of the "pie." If this were to happen, 100% of every multistate corporation's income would be subjected to taxation and divided up; not more than 100% and not less than 100%. The more that states use different formulas (or employ different rules in administering them), the greater the likelihood that some income of multistate business will either be subjected to multiple taxation or escape state taxation entirely, depending on the situation. In fact, methods used by different states for taxing business income and apportioning that income vary widely. In recent years, the trend appears to have been in the direction of more diverse apportionment schemes, rather than toward uniformity.

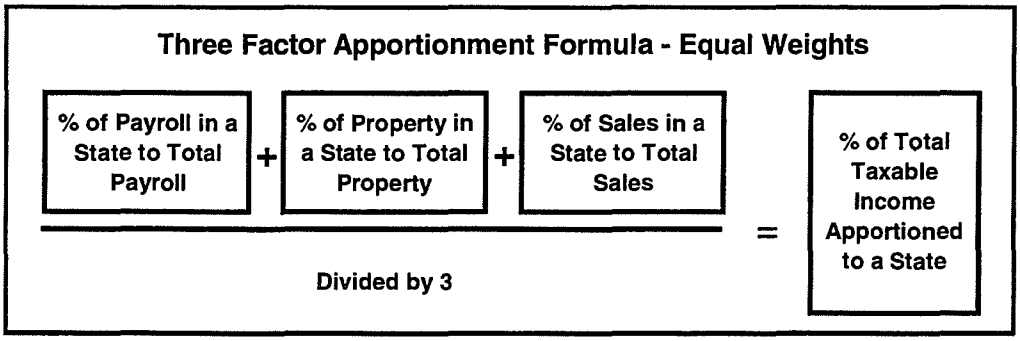
This report's primary focus is on the method Maine uses in determining the piece of the business income pie that is subject to Maine's corporate income tax. This section of the report provides a brief overview of apportionment formulas and the

rationale for the equally weighted 3-factor formula that is still used by 17 states, and the trends related to the use of these formulas. It also briefly discusses some of the other complicating concepts related to taxation of multistate businesses: the concept of nexus, unitary taxation and the "throwback" rule.

A. The Rationale for a Three Factor Apportionment Formula

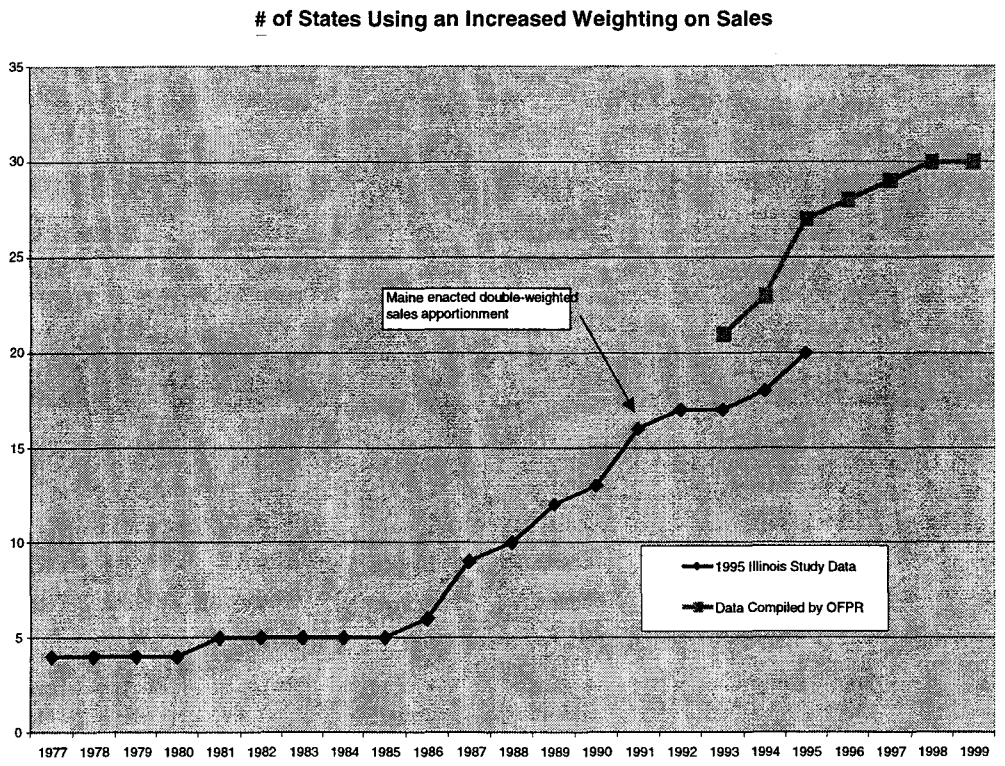
The National Commission on Uniform State Laws adopted the Uniform Distribution of Income for Tax Purposes Act (UDITPA) in 1958 to encourage uniformity among the states with respect to apportionment formulas. Maine enacted a slightly modified version of UDITPA in 1969, when the income tax was enacted in Maine. Many other states did the same. UDITPA proposed an apportionment formula with 3 equally weighted factors: property, payroll and sales.

The 3-factor apportionment formula appears to have been a compromise between the "production" states in the East and the "market" states in the West. The payroll and property factors are measures of the two major business inputs of capital and labor, respectively, and together constitute a fair measure of the "supply side" of the market equation. However, these 2 factors only dealt with one side of the market equation. Sales are included to represent the "demand" side. The UDITPA three-factor equally weighted formula is implemented using the following equation:



B. National Trends – Increasing the Weighting of the Sales Factor

In recent years, more and more states have been increasing the weighting of the sales factor in their apportionment formulas. In 1991, Maine made a move in this direction as well, changing from an equal weighting of the 3 factors to a double weighting of the sales factor. The national trend has been fueled by proponents of a greater weighting of the sales factor as an economic development incentive. A greater weight on the sales factor tends to favor businesses with substantial amounts of property and payroll in a state but with a relatively higher percentage of sales to other states. The graph below clearly shows the growing trend by states of increasing the weight of the sales factor. By 1999, 30 states place a greater weight on the sales factor. The earlier data are from a 1995 study conducted for the Illinois Manufacturers Association (see Appendix F). The later data were compiled by the Office of Fiscal and Program Review for the Commission. Given the limited amount of time and resources available the earlier data could not be replicated nor could the variance between the data sets be explained.



The weighting of the 3 factors in apportionment formulas and their relative fairness is still subject to much debate. An argument has been made by academics and others concerned with tax policy that the double-weighted sales factor that has been in place in Maine since 1991 (see formula below) is actually the fairest method in that it equally balances the supply side of the market equation, as measured by the property and payroll factors, with the demand side, as measured by the sales factor.

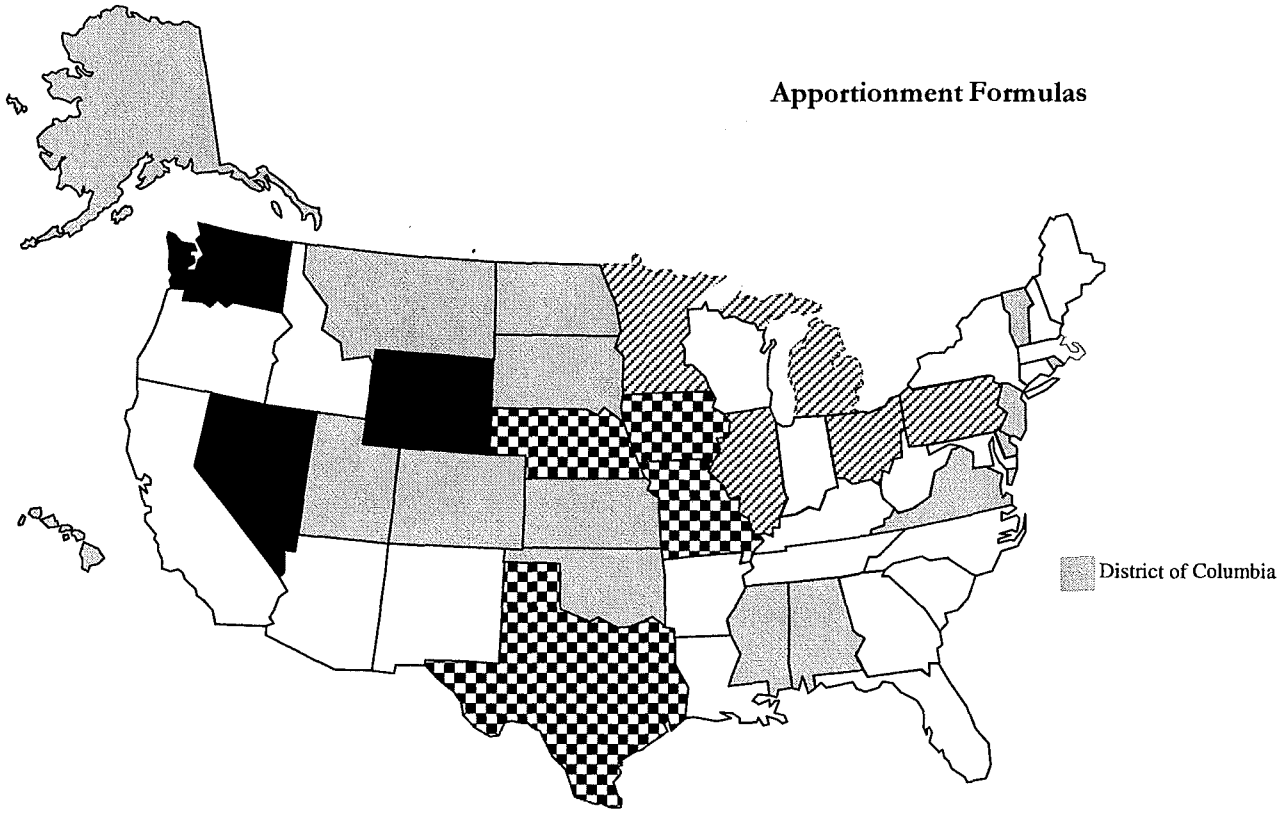
Three-Factor Formula with Double-Weighted Sales

$$\frac{\text{\% of Maine Payroll to Total Payroll} + \text{\% of Maine Property to Total Property} + \text{\% of Maine Sales to Total Sales} + \text{\% of Maine Sales to Total Sales}}{\text{Divided by 4}} = \text{\% of Total Taxable Income Apportioned to Maine}$$

C. Current Apportionment Methods used by States

Appendix C provides a table that summarizes the apportionment formulas used by the 50 states and the District of Columbia for the 1999 tax years. That table also includes related information affecting apportionment. The Office of Fiscal and Program Review compiled this information from numerous sources, but primarily, the Federation of Tax Administrators and Commerce Clearing House, Inc. (CCH).

The map below also illustrates the geographic distribution of the various method of formula apportionment.



17 states (including the District of Columbia) generally use a 3-factor equally weighted formula (2 of these states, Colorado and Kansas allow the optional use of a 2-factor formula using sales and property);

22 states use a double-weighted sales factor in a 3-factor formula;

5 states (Illinois, Michigan, Minnesota, Ohio and Pennsylvania) use a 3-factor formula with greater than a double-weighting ("super-weighting") of the sales factor;

4 states (Iowa, Missouri, Nebraska and Texas) use sales only or single-sales factor apportionment (Missouri allows the option of single-sales factor apportionment); and

3 states (Nevada, Wyoming and Washington) have no corporate income tax.

The classifications in the table in Appendix C and summarized above do not take into account the use of a single-sales factor formula for specific industries such as financial services or manufacturing industries. Numerous states have special apportionment formulas for specific industries or types of businesses. For instance, Massachusetts has implemented single-sales factor apportionment for mutual fund service corporations and qualified defense contractors and on a phased-in basis for

manufacturing industries. Appendix C includes notes on some of these special formulas.

The map above illustrates the clustering of the use the of single-sales factor apportionment formula and the use of "super weighted" sales factor formulas. Most of these states are in the Mid-West, neighboring Iowa, which has had a single-sales factor apportionment formula for many years. The move to adopt a single-sales factor apportionment formula or "super-weight" the sales factor by Iowa's neighboring states may largely be a "defensive" tactic by those states. That trend has begun to head eastward; note Ohio's and Pennsylvaia's recent changes to triple weighting of the sales factor.

In New England, Massachusetts has implemented single-sales factor apportionment for qualified defense contractors and mutual fund service corporations and on a phased-in basis for manufacturers. Connecticut has implemented single-sales factor apportionment for certain financial industries. Both New Hampshire and Connecticut have been studying implementation of single-sales factor apportionment. It is uncertain whether these studies will lead to an expansion of the use of single-sales factor apportionment in New England.

D. Other Complicating Issues Related to Apportionment

There are several other considerations with respect to the taxation of businesses that complicate the apportionment picture.

Nexus

As noted earlier, state taxation of multistate business is subject to the limitations of the U.S. Constitution. Not all business activity in a state may be subjected to the state's taxing authority. Under the Due Process and Commerce Clauses of the U.S. Constitution, Maine may tax only those corporations that have sufficient contacts or "nexus" with the State. The question of what constitutes sufficient contacts for a state to tax a business is a complicated one that is presently evolving through court decisions. The U.S. Supreme Court has issued no definitive opinion on what constitutes sufficient contact for income tax jurisdiction purposes. States have imposed their own limitations on tax jurisdiction -- as noted above, a business must have payroll, property or sales in Maine before it will be subject to the state's income tax jurisdiction. The U.S. Congress under its authority to regulate commerce among the states has also imposed some limitations on the states. In 1959 the Congress enacted PL 86-272, which prohibits a state from imposing an income tax on a corporation engaged in interstate commerce if the only business activities within the state consist of the solicitations of orders of tangible personal property, if the orders are approved by an office outside of the state and the goods ordered are shipped from a point outside of the state. The precise meaning of the limitations imposed by PL 86-272 and their application to particular sets of facts has been, and continues to be, the subject of much litigation around the country.

Unitary Taxation

Putting aside PL 86-272, any company with payroll, property or sales in Maine will likely have a sufficient nexus with the state resulting in the requirement to file an income tax return. Once it is clear that a return is required, it is necessary to determine what income is subject to tax. For corporations that are part of a larger corporate enterprise that determination can be quite complicated. Maine (like 26 other states – see Appendix C) is a so-called "unitary taxation" or "combined reporting" income tax jurisdiction, as opposed to a "single-entity" reporting jurisdiction. This means that Maine includes in the income tax base the income of members of affiliated groups engaged in a "unitary business." A "unitary business" is characterized by unity of ownership, functional integration, centralized management and economies of scale. The unitary concept, while it is theoretically sound and has been upheld by the United State Supreme Court on many occasions, greatly complicates the taxation of multistate business income. Numerous affiliates of a given taxpayer may have to be included in the statutory apportionment formula. Consequently, a unitary corporation subject to the Maine corporate income tax may have to include the income, sales, payroll, and property of various related enterprises, complicating any analysis of the impact of making changes to the formula.

The Commission heard evidence that some business enterprises have cited Maine's status as a "unitary taxation" state as a more significant deterrent to certain types of business expansion in Maine than the income apportionment formula. The Commission simply did not have sufficient time or resources to make a thorough study of this area.

The "Throwback" Rule

UDITPA contained a provision known as the "throwback rule" that was adopted by Maine in 1969, and is still codified today at 36 MRSA section 5211(15)(B). The "throwback" rule provides that sales of tangible personal property shipped from Maine to a customer in another state are assigned to Maine ("thrown back" to Maine) if the taxpayer making the sales is not taxable in the state of the customer. Any sales made to the Federal Government and shipped outside of Maine are also "thrown back" to Maine for purposes of the sales factor in the apportionment formula. The purpose of the "throwback" rule was to avoid so-called "nowhere sales" -- i.e., sales that are not includible in the sales factor formula of *any* state and therefore result in corporate income that is not subject to the taxing authority of any state. PL 86-272 (discussed above) must be taken into account in determining whether a business is taxable in a particular state.

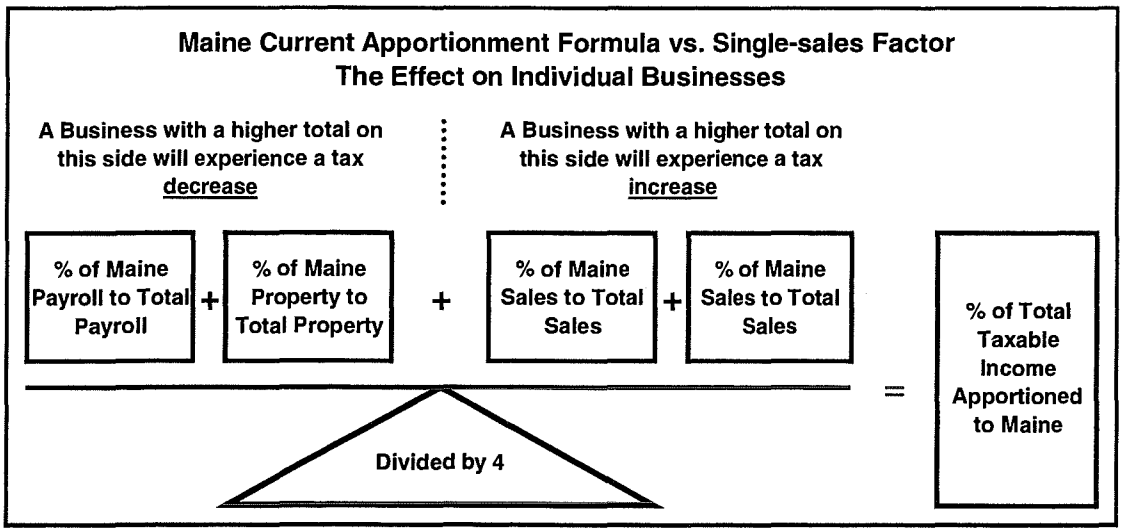
The throwback rule makes significantly more complex any attempt to determine the effect of increasing the weighting of the sales factor or moving to single-sales factor apportionment. A business that has most of its operations in Maine and ships goods to numerous states would appear to benefit by increasing the weighting of the sales factor. However, if the business sells primarily to the Federal Government or does not have tax nexus in most of those other states, the throwback rule could operate to assign those sales back to Maine. In 1999, 26 states including the District of Columbia used the throwback rule (see Appendix C for more detail).

Some states have proposed the repeal of the throwback rule in conjunction with increasing the weighting of the sales factor. Illinois considered the repeal of the "throwback" rule in conjunction with implementing the single-sales factor apportionment formula. The repeal of the throwback rule increased the revenue loss by approximately 50%. A comparison of Maine's situation to that of Illinois' would suggest that a 50% increase in the revenue loss would be at the lower end of the estimate of the impact.

The Commission looked only briefly at this rule. However, Maine currently does not capture information on its tax returns that could provide a basis for estimating the effect of this feature of Maine's corporate income tax. The Commission thought it would be advisable for the Bureau of Revenue Services to collect information on its corporate income tax form to permit further analysis of the effect of the throwback rule in Maine.

III. Maine's Apportionment Formula vs. Single-sales Factor Apportionment

Under the current apportionment formula, Maine apportions business income based on the 3 factors. It should be noted that any changes in the apportionment formula will have no effect on a business that has no tax nexus in any other state. The effect on individual taxpayers of changing to a single-sales factor apportionment formula will depend on the relative weight of these 3 factors in the particular business' operations in the state. The figure below illustrates the effect on various Maine business taxpayers of a change to single-sales factor apportionment.



Businesses for whom the sum of the payroll and property factors is greater than 2 times the sales factor would experience a tax decrease under single-sales factor apportionment. Conversely, businesses with a greater relative weighting of these factors on the other side of the equation will experience a tax increase. The size of the change in tax liability from implementing single-sales factor apportionment will depend on the relative differences between the sum of the payroll and property

factors and two-times the sales factor. If the factors are equally weighted, a business will not likely experience any change in tax liability. However, if a business has 20% of its payroll in Maine and 20% of its property in Maine but less than 10% of its sales attributable to Maine (Note: Maine sales would include sales that are "thrownback" to Maine); it will decrease its share of business income attributable to Maine from 15% to 10%. To show what happens when the relative weights change, consider a Maine business with 75% of both its payroll and property in Maine but with only 5% of its sales attributable to Maine (again including sales that are "thrownback" to Maine); that business will experience a much more substantial decrease, the percentage of income apportioned to Maine for this business would change from 40% to 5%.

An example of a business that would experience a tax increase would be one with relatively more property and payroll out-of-state relative to its percentage of Maine sales. A business that has a relatively small percentage of its payroll and property in Maine may experience a tax increase under single-sales factor apportionment. For example, a large retailer with headquarters outside of the state may have a combined percentage of Maine property and payroll of less than 2%, given its out of state headquarters, and have Maine sales in excess of 2%. That business would experience a tax increase, the size of which would, again, depend on the relative weighting of the combined payroll and property factors to the sales factor.

While it might appear to be a simple matter to classify businesses that would experience a tax decrease as "Maine-based exporting firms" and those with tax increases as predominantly "out-of-state importers", the "throwback" rule and a business' ownership circumstances can significantly blur this distinction.

IV. Revenue and Economic Effects of Implementing Single-sales Factor Apportionment in Maine

According to information provided by Maine Revenue Services based on 1995 actual tax returns, implementing SSFA in Maine would affect 2,071 of the total 14,916 firms filing Maine corporate income tax returns, i.e. those businesses organized as C-corporations. Insufficient data are available for businesses that file as S-Corporations, Partnerships or Sole-Proprietorships. For C-corporations, 700 corporations would experience a decrease in tax liability under single-sales factor apportionment and 1,371 would experience an increase in their tax liability. Appendix D provides a table summarizing the revenue impact of implementing single-sales factor apportionment in Maine by industry showing the numbers of taxpayers in each industry that would experience a tax increase, a tax decrease and no change in their tax liability. For C-corporations, the implementation of single-sales factor apportionment results in a static revenue loss of approximately $5,700,000. When the other businesses whose taxes are paid through the individual income tax (the so-called "pass-through" entities) are included, the estimated annual revenue loss increases to approximately $9,500,000.

The Commission reviewed 3 studies sponsored by industry associations in 3 different states, Illinois, Massachusetts and New Hampshire that showed significant economic benefits from adopting single-sales factor apportionment. Appendix F

provides a table summarizing those 3 studies. The Commission wanted to replicate those studies in Maine, but did not have sufficient resources or time to conduct those types of studies. Instead, the Commission requested that the State Planning Office conduct an economic analysis of implementing single-sales factor apportionment in Maine using the output from Maine Revenue Services' tax model. The State Planning Office used the Regional Economic Models, Inc. (REMI) model to estimate the economic effect of this tax change. Appendix E provides a summary of the output from that model and the economic effect as measured by the number of new jobs created. The effect by industry is presented as a range between a "conservative" estimate, equally weighting the effect of winners and losers by industry, and a more "optimistic" assessment, downplaying the negative effects on losers. While this analysis of the economic effects of implementing SSFA in Maine did not produce the type of dramatic economic effects depicted in the other studies, the output was still positive, with an estimate of between 381 to 1,040 new jobs created as a result of this tax change.

Another question raised with respect to implementing single-sales factor apportionment was the effect of the tax change on the volatility of Maine's tax structure. Maine's corporate income tax, which currently makes up approximately 5% of the General Fund revenue total, is quite volatile. Some of the volatility is due to the incidence of this tax. The top 100 taxpayers accounted for approximately 70% of the tax liability based on 1996 tax returns. The issue of the volatility of Maine's tax structure is currently being reviewed by a subcommittee of the Joint Standing Committee on Taxation. A concern over volatility was raised to the Commission. Information presented to the Commission suggests that sales are more subject to fluctuations in economic conditions than payroll and property. On the other hand, periods of economic downturns also represent an increase in the number of businesses showing losses on their bottom lines. Single-sales factor apportionment may reduce Maine's share of those losses and serve to offset some of the volatility. However, the Commission did not have sufficient time or resources to quantify the effect of implementing single-sales factor apportionment on the volatility of Maine's tax structure.

V. Apportionment as an Economic Development Incentive

The three studies conducted for Illinois, Massachusetts and New Hampshire concluded that single-sales factor apportionment is a very positive economic development incentive. This method of apportionment of business income may remove a disincentive for investing in property and payroll in a state. A business' income tax that is apportioned to a state with single-sales factor apportionment is unaffected by additional investments in payroll and property in that state. This method also appears to be a means of "exporting" a state's taxes to out-of-state corporations with minimal physical presence in a state relative to the state's percentage of sales. For these reasons, proponents have described this apportionment method as a very logical policy to encourage investment in a state by multistate businesses.

As noted earlier in the report, opponents of this method have noted that the 3 factor formula, whether equally weighted or with a double-weighted sales factor, is the

fairest and most accurate measure of a business' ability to produce income within a state and to determine the amount of benefit received from the State. Proponents of single-sales factor apportionment argue that the increasing number of states that have adopted or are considering adopting single-sales factor apportionment, either generally or for specific industries, have resulted in greater diversity rather than uniformity. Only through uniformity can it be assured that portions of multistate business income are not subject to double taxation or, on the other hand, escape taxation.

Those states that are trying to compete with states that have implemented single-sales factor apportionment for business expansions or new investments have noted the competitive disadvantage due to the differences in the tax liabilities. If the trend toward adoption of single-sales factor apportionment continues, this competitive disadvantage will grow and the potential economic benefits from adopting a single-sales factor apportionment formula will be diminished. The Illinois study (summarized in Appendix F) noted a declining positive effect as more states adopted an increased weight for the sales factor. If Maine adopts single-sales factor apportionment early in the trend, it is likely to receive a greater economic benefit from this tax change.

The Commission was concerned about the potential effects on the Maine economy of neighboring states, such as Massachusetts and New Hampshire, adopting single-sales factor apportionment. As noted earlier, single-sales factor apportionment has been getting much attention in New England. The Commission asked if the studies and economic modeling conducted by DRI/McGraw Hill for those states was capable of determining how much of the economic growth projected in those states was at Maine's expense. The models developed for those studies were not capable of producing this type of estimate. Again, the Commission did not have sufficient time or resources to explore this subject further.

The Department of Economic and Community Development is currently updating Maine's strategic economic plan. The Commission was interested in comparing the estimated effect by industry of implementing single-sales factor apportionment (see Appendix D and Appendix E) with those industries targeted for economic growth as part of that plan. A rough comparison of the industries most positively affected by this tax change in Maine indicates that those same industries are those targeted for economic growth in Maine's strategic economic plan. The Commission did not specifically evaluate this tax change with respect to other economic development incentives. However, the Commission did hear testimony indicating that corporate income taxes were a relatively insignificant portion of the gross output of corporate business when compared to indirect business taxes that are not based on profitability, such as property and use taxes.

VI. Recommendations

The major responsibility of the Commission is to make recommendations to the Joint Standing Committee on Taxation on the advisability of adopting single-sales factor apportionment in Maine. The Commission considered several options with respect to various forms of implementing single-sales factor apportionment. The

Commission was unable to develop a single recommendation for the Joint Standing Committee on Taxation. While the Commission was divided on the subject, the Commission was predominantly in favor of adopting single-sales factor apportionment with 9 members deciding that single-sales factor apportionment should be adopted either for specific targeted industries or as an optional method. 2 members have recommended against changing Maine's apportionment formula. Provided below are summaries of these recommendations.

A. Recommendations on implementing Single-sales Factor Apportionment:

Adopt single-sales factor apportionment for the manufacturing, financial services and "technology" industries (6 members)

Six members of the Commission recommended the implementation of single-sales factor apportionment for all manufacturing, financial services and "technology" businesses. The industry-specific or targeted implementation reduces the estimated revenue loss associated with this tax change. Appendix D provides a summary of the revenue impact by industry showing the industry classifications affected. The estimated net loss of revenue is reduced for C-Corporations by a maximum of $1,000,000. This is the maximum savings because it is not possible to estimate the effect from the "technology" industry. These Commission members also favored this industry-specific approach because it more effectively aligns this "economic development" incentive with Maine's economic development strategic plan. They also felt it was important to try to stop the erosion in Maine's manufacturing industries.

Adopt single-sales factor apportionment as an elective or optional formula. (3 members)

Three members favored an elective or optional single-sales factor apportionment method. They did so to minimize the discriminatory impact of this tax change on certain businesses. Those businesses adversely affected by the proposed change to single-sales factor apportionment could opt to continue to use the current formula, thus minimizing the number of "losers" or businesses with tax increases. This version of single-sales factor apportionment would significantly increase the revenue loss. For C-corporations, the estimated revenue loss would from approximately $5,700,000 to $20,400,000.

Make no change in Maine's apportionment formula. (2 members)

The members against changing Maine's apportionment formula felt that the "tax fairness" arguments weighed out over the estimated economic effects and that a more equitable means of providing a tax incentive to businesses was to reduce Maine's corporate income tax rate and to eliminate the brackets.

B. Other Recommendations:

Recommend that Maine Revenue Services collect information about the sales affected by the "throwback" rule on the corporate income tax form. (Unanimous Recommendation)

As noted earlier in this report during the discussion of the "throwback" rule, Commission members were interested in finding out the impact of the "throwback" rule. Illinois had explored the repeal of the "throwback" rule in conjunction with a change to a single-sales factor apportionment method. The lack of information to effectively evaluate such an option in Maine was the reason that the Commission recommended that Maine Revenue Services modify its corporate income tax form to begin to collect information on the amount of sales that are "thrown back" to Maine as a result of this rule.

Appendix A

Joint Order Establishing the Commission to Study Single-sales Factor Apportionment

STATE OF MAINE

SP 0771, as amended

Joint Order - Relative to the Commission to Study Single-sales Factor Apportionment

---

WHEREAS, the Legislature finds that there is a trend in other states to change the way in which income of multistate businesses is apportioned for income tax purposes; and

WHEREAS, the interaction of different apportionment approaches creates a disincentive for capital investment in Maine; and

WHEREAS, the trend may be placing Maine at a competitive disadvantage in attracting and retaining investment and jobs; now, therefore, be it

ORDERED, the House concurring, that the Commission to Study Single-sales Factor Apportionment is established as follows:

1. Commission established. The Commission to Study Single-sales Factor Apportionment, referred to in this order as the "commission," is established.

2. Membership. The commission consists of the following 11 members:

A. The State Tax Assessor or the State Tax Assessor's designee;

B. The Commissioner of Economic and Community Development or the commissioner's designee;

C. Three members from the Senate appointed by the President of the Senate. Two of these members must be members of the Joint Standing Committee on Taxation and one member must be a member of the Joint Standing Committee on Business and Economic Development;

D. Four members of the House of Representatives appointed by the Speaker of the House. Three of these members must be members of the Joint Standing Committee on Taxation and one member must be a member of the Joint Standing Committee on Business and Economic Development; and

E. Two members of the business community appointed by the Governor.

3. Chairs. The first Senate member named is the Senate chair. The first House member named is the House chair.

4. Appointments; convening commission. All appointments must be made no later than 30 days following the effective date of this order. The appointing authorities shall notify the Executive Director of the Legislative Council upon making their appointments. When the appointment of all members is complete, the chairs of the commission shall call and convene the first meeting of the commission no later than August 15, 1999.

5. Duties. The commission has the following duties:

A. To gather information pertaining to single-sales factor corporate income tax apportionment, including, without limitation, the experience of other states that have adopted single-sales factor corporate income tax apportionment; and

B. To make recommendations to the Joint Standing Committee on Taxation as to the advisability of adopting single-sales factor corporate income tax apportionment in the State, including any recommendations for legislation.

6. Staff assistance. Upon approval of the Legislative Council, the Office of Fiscal and Program Review shall provide necessary staffing services to the commission. The Department of Administrative and Financial Services, Bureau of Revenue Services shall provide information and services as requested by the commission.

7. Compensation. Legislative members of the commission are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2 and reimbursement for travel and other necessary expenses for attendance at meetings of the commission. Public members not otherwise compensated by their employers or other entities whom they represent are entitled to receive reimbursement of necessary expenses for their attendance at authorized meetings of the commission.

8. Report. The commission shall submit a report to the Joint Standing Committee on Taxation by December 1, 1999. The Joint Standing Committee on Taxation may introduce legislation in the Second Regular Session of the 119th Legislature to implement the recommendations of the commission. If the commission requires a limited extension of time to conclude its study and make its report, it may apply to the Legislative Council, which may grant the extension.

9. Commission budget. The chairs of the commission, with assistance from the commission staff, shall administer the commission's budget. Within 10 days after its first meeting, the commission shall present a work plan and proposed budget to the Legislative Council for its approval. The commission may not incur expenses that would result in the commission exceeding its approved budget.

Upon request from the commission, the Executive Director of the Legislative Council or the executive director's designee shall provide the commission chairs and staff with a status report on the study budget expenditures incurred and paid and available funds.

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Appendix B

Commission Membership

COMMISSION TO STUDY SINGLE-SALES FACTOR APPORTIONMENT

Membership

Appointments by the President

Senator Richard P. Ruhlin, Senate Chair	Joint Standing Committee on Taxation
Senator Beverly C. Daggett	Joint Standing Committee on Taxation
Senator Carol Kontos	Joint Standing Committee on Business and Economic Development

Appointments by the Speaker

Representative Patrick Colwell, House Chair	Joint Standing Committee on Taxation
Representative Eleanor M. Murphy	Joint Standing Committee on Taxation
Representative Stephen S. Stanley	Joint Standing Committee on Taxation
Representative Kevin L. Shorey	Joint Standing Committee on Business and Economic Development

Appointments by the Governor

Gain Francis PricewaterhouseCoopers LLP	Representing the Business Community
Jonathan Block Pierce Atwood	Representing the Business Community

Ex Officio

Alan Brigham Director of Policy and Planning Department of Economic and Community	Department of Economic and Community Development Commissioner's Designee
Jerome D. Gerard Deputy State Tax Assessor	State Tax Assessor's Designee

Staff
Grant T. Pennoyer
Office of Fiscal and Program Review

Appendix C

Table of State Apportionment Methods

State Apportionment of Corporate Income - 1999 Tax Years

State	FTA Classification January 1, 1999	Follows UDITPA	MTC Membership Status	Combined Reporting	Throwback Rule	General Weighting of Factors			General Classification					Other Special Formulas	Notes on Special Formulas and Other Notes
						Sales	Property	Payroll	Equal	Double-Weighted Sales	> Double-weighted Sales in 3-Factor Formula	Single-sales or Sales Only	No Corp. Income Tax		
ALABAMA	3 Factor	Yes	Full	No	Yes	33.3%	33.3%	33.3%	X						
ALASKA	3 Factor	Yes	Full	Yes	Yes	33.3%	33.3%	33.3%	X						
ARIZONA	Double wtd. sales	Yes	Associate	Yes	Yes	50.0%	25.0%	25.0%		X					
ARKANSAS	Double wtd. sales	Modified	Full	No	Yes	50.0%	25.0%	25.0%		X					
CALIFORNIA	Double wtd. sales	Modified	Full	Yes	Yes	50.0%	25.0%	25.0%		X					
COLORADO	3 Factor/Sales & Property	Yes	Full	Option	Option	Equal	Equal	Optional	X					Yes	Option between UDITPA and 2 factors, revenue and property
CONNECTICUT	Double wtd. sales/Sales	No	Associate	No	No	50.0%	25.0%	25.0%		X				Yes	Manufacturing - double weighted sales; others - single sales factor
DELAWARE	3 Factor	Similar	No	No	No	33.3%	33.3%	33.3%	X						
WASHINGTON, DC	3 Factor	No	Full	No	Yes	33.3%	33.3%	33.3%	X						
FLORIDA	Double wtd. sales	Yes	Sovereignty	No	No	50.0%	25.0%	25.0%		X					
GEORGIA	Double wtd. sales	Similar	Associate	Yes	No	50.0%	25.0%	25.0%		X					
HAWAII	3 Factor	Modified	Full	Yes	Yes	33.3%	33.3%	33.3%	X					Yes	Other options available
IDAHO	Double wtd. sales	Yes	Full	Yes	Yes	50.0%	25.0%	25.0%		X					
ILLINOIS	66.7% Sales, 16.6% Property & Payroll	Similar	Associate	Yes	Yes	66.67%	16.67%	16.67%			X				Phased in implementation of single sales factor apportionment for tax years on or after 12/31/2000
INDIANA	3 Factor	Similar	No	Yes	Yes	50.0%	25.0%	25.0%		X					
IOWA	Sales	No	Project	No	No	100.0%	0.0%	0.0%				X			
KANSAS	3 Factor/Sales & Property	Yes	Full	Yes	Yes	Equal	Equal	Optional	X					Yes	Option between UDITPA and 2-factor formula of property and sales; special apportionment rules for certain businesses
KENTUCKY	Double wtd. sales	Modified	Associate	Yes	No	50.0%	25.0%	25.0%		X					
LOUISIANA	Double wtd. sales	Similar	Associate	No	No	50.0%	25.0%	25.0%		X				Yes	Service industries, 2 factor formula
MAINE	Double wtd. sales	Modified	Full	Yes	Yes	50.0%	25.0%	25.0%		X					
MARYLAND	Double wtd. sales	No	Associate	No	No	50.0%	25.0%	25.0%		X					
MASSACHUSETTS	Double wtd. sales	Modified	Associate	No	Yes	50.0%	25.0%	25.0%		X				Yes	Single sales factor for mutual fund service corps.;single sales factor for qualified defense contractors; and phased-in single sales for Manufacturers (1996 to 2001)
MICHIGAN	90% sales, 5% Property and 5% Payroll	Similar	Full	Yes	No	Variable	Variable	Variable			X				Weighting contingent on version of captial acquisition deduction in effect
MINNESOTA	70% Sales,15% Property and 15% Payroll	No	Full	Yes	No	70.0%	15.0%	15.0%			X				
MISSISSIPPI	Accounting/3 Factor	Similar	Associate	Yes	Yes	33.3%	33.3%	33.3%	X					Yes	Manufacturers/wholesalers: UDITPA; Manufacturers/retailers: Double-weighted sales factor; retailers, wholesalers, merchants: single sales factor; and other
MISSOURI	3 Factor/sales	Options	Full	No	Yes	Option	Option	Option				X		Yes	Option of single sales factor or separate accounting
MONTANA	3 Factor	Exceptions	Full	Yes	Yes	33.3%	33.3%	33.3%	X						

Appendix C-1

State Apportionment of Corporate Income - 1999 Tax Years

State	FTA Classification January 1, 1999	Follows UDITPA	MTC Membership Status	Combined Reporting	Throwback Rule	General Weighting of Factors			General Classification					Other Special Formulas	Notes on Special Formulas and Other Notes
						Sales	Property	Payroll	Equal	Double-Weighted Sales	> Double-weighted Sales in 3-Factor Formula	Single-sales or Sales Only	No Corp. Income Tax		
NEBRASKA	Sales	Similar	Project	Yes	No	100.0%	0.0%	0.0%				X			
NEVADA	No State Income Tax	N/A	No	N/A	N/A								X		
NEW HAMPSHIRE	Double wtd. sales	Similar	Associate	Yes	Yes	50.0%	25.0%	25.0%		X					Double -weighted sales after 6/30/99
NEW JERSEY	Double wtd. Sales	No	Associate	No	No	50.0%	25.0%	25.0%		X					
NEW MEXICO	3 Factor/2 wtd. Sales	Yes	Full	Yes	Yes	33.3%	33.3%	33.3%	X					Yes	Certain Manufacturers may elect double-weighted sales formula
NEW YORK	Double wtd sales	No	No	Yes	No	50.0%	25.0%	25.0%		X				Yes	S-corps 3 factor equal weighted formula; special apportionment provisions for specific industries
NORTH CAROLINA	Double wtd. sales	Similar	Associate	No	No	50.0%	25.0%	25.0%		X					
NORTH DAKOTA	3 Factor	Yes	Full	Yes	Yes	33.3%	33.3%	33.3%	X						
OHIO	60% Sales, 20% Property & Payroll	Similar	Associate	Yes	No	60.0%	20.0%	20.0%			X				Beginning in 1999, OH triple weighted the sales factor
OKLAHOMA	3 Factor	Similar	Associate	No	Yes	33.3%	33.3%	33.3%	X					Yes	Corporations making initial investments of >$200 million use double-weighted sales formula
OREGON	Double wtd. sales	Yes	Full	No	Yes	50.0%	25.0%	25.0%		X					
PENNSYLVANIA	Double wtd. sales	Exceptions	Associate	No	No	60.0%	20.0%	20.0%			X				Beginning in 1999, PA triple weighted the sales factor
RHODE ISLAND	3 Factor	Similar	Project	No	No	33.3%	33.3%	33.3%	X						
SOUTH CAROLINA	Double wtd. sales/Sales	No	Associate	No	No	50.0%	25.0%	25.0%		X				Yes	Other than tangible personal property subject to single sales factor formula
SOUTH DAKOTA	3 Factor	Similar	Full	Yes	N/A	33.3%	33.3%	33.3%	X						
TENNESSEE	Double wtd. sales	Yes	Associate	Yes	No	50.0%	25.0%	25.0%		X					
TEXAS	Sales	No	Full	No	Yes	100.0%	0.0%	0.0%				X			
UTAH	3 Factor	Yes	Full	Yes	Yes	33.3%	33.3%	33.3%	X						
VERMONT	3 Factor	No	No	No	Yes	33.3%	33.3%	33.3%	X						
VIRGINIA	3 Factor	No	No	Yes	No	33.3%	33.3%	33.3%	X					Yes	Certain businesses use single factor formula; double-weighted sales beginning in 2000
WASHINGTON	No State Income Tax	N/A	No	N/A	N/A								X		
WEST VIRGINIA	Double wtd. sales	No	Associate	Yes	No	50.0%	25.0%	25.0%		X					
WISCONSIN	Double wtd. sales	Similar	Associate	No	Modified	50.0%	25.0%	25.0%		X					
WYOMING	No State Income Tax	N/A	No	N/A	N/A								X		

Compiled by the Office of Fiscal and Program Review
Sources include Commerce Clearing House, Inc. (CCH) and Federation of Tax Administrators (FTA)

Appendix D

Revenue Impact of Single-sales Factor Apportionment by Industry Classification (C-Corporations Only)

Revenue Impact of Changing to Single Sales Factor
Tax Year 2000 - C-Corporations Only

Industry	Total Industry # of Firms	Total Industry Revenue	Firms with Increase in Tax Liability # of Firms	Firms with Increase in Tax Liability Revenue	Firms with Decrease in Tax Liability # of Firms	Firms with Decrease in Tax Liability Revenue	# of Firms with No Change
Lumber	248	(980,446)	4	17,932	14	(998,377)	230
Furniture	28	($377,902)	5	$25,084	3	(402,986)	20
Stone, Clay, Glass, Etc.	106	$126,779	9	$243,303	4	(116,524)	93
Primary Metals	68	$9,832	5	$103,283	5	(93,451)	58
Fabricated Metals	145	($275,014)	29	$84,757	13	(359,771)	103
Machinery & Computers	150	$243,735	42	$283,818	10	(40,083)	98
Electric Equipment	161	($1,155,900)	53	$272,514	24	(1,428,414)	84
Motor Vehicles	19	$316,438	6	$319,143	1	(2,705)	12
Rest of Transportation Equip.	61	($4,634,206)	7	$56,164	4	(4,690,370)	50
Instruments	84	$238,020	37	$280,328	4	(42,308)	43
Miscellaneous Manuf.	198	($318,801)	29	$304,136	14	(622,937)	155
Food	135	$1,176,746	38	$1,204,244	7	(27,498)	90
Tobacco Manuf.	10	$654,858	5	$654,858	0	0	5
Textiles	157	$162,129	15	$162,695	1	(566)	141
Apparel	66	($675,354)	10	$41,595	6	(716,949)	50
Paper	62	($334,312)	14	$434,816	10	(769,128)	38
Printing	158	$97,388	35	$283,718	6	(186,330)	117
Chemicals	128	$1,596,240	52	$1,900,621	13	(304,381)	63
Petroleum Products	76	$412,070	8	$412,081	1	(11)	67
Rubber	75	$75,111	12	$85,512	4	(10,401)	59
Leather	76	($308,217)	2	$2,379	6	(310,596)	68
Mining	908	($391,703)	6	$16,871	17	(408,574)	885
Construction	1,459	($32,328)	122	$124,771	52	(157,099)	1,285
Railroad	12	$26,757	1	$36,718	2	(9,961)	9
Trucking	367	$75,554	34	$90,794	7	(15,240)	326
Local/Interurban	95	$2,433	3	$3,708	2	(1,275)	90
Air Transportation	35	$76,295	8	$97,145	4	(20,849)	23
Other Transportation	131	$461,629	11	$470,342	5	(8,713)	115
Communication	152	$815,633	23	$908,496	12	(92,863)	117
Public Utilities	104	($1,138,839)	9	$579,991	10	(1,718,830)	85
Banking	26	$2,239	1	$8,920	3	(6,682)	22
Insurance	337	$24,322	23	$28,736	16	(4,414)	298
Credit & Finance	666	($768,530)	70	$4,584	92	(773,114)	504
Real Estate	1,186	($117,981)	12	$47,519	49	(165,501)	1,125
Eating & Drinking	351	$4,339	8	($11,151)	5	15,490	338
Rest of Retail	1,705	$76,119	51	$3,078,562	35	(3,002,443)	1,619
Wholesale	1,061	($1,028,233)	188	$982,471	82	(2,010,704)	791
Hotels	148	$10,951	8	$11,606	3	(656)	137
Personal Servs. & Repair	122	$19,496	15	$20,147	2	(652)	105
Private Household						0	0
Auto Repair/Services	226	$21,648	18	$23,884	2	(2,236)	206
Misc. Business Services	761	$576,066	146	$592,090	45	(16,024)	570
Amusement & Recreation	192	$3,322	3	$8,858	3	(5,537)	186
Motion Pictures	48	($4,583)	3	$9	3	(4,592)	42
Medical	605	$58,149	30	$72,347	18	(14,198)	557
Misc. Professional Services	1,420	$317,341	146	$379,628	63	(62,287)	1,211
Education	60	$266	4	($1,357)	1	1,623	55
Non-Profit Organizations						0	0
Agric./Forest/Fish Services	531	($807,595)	11	$19,924	17	(827,519)	503
Total	**14,916**	**($5,668,040)**	**1,371**	**$14,768,598**	**700**	**(20,436,638)**	**12,845**

Source: Maine Revenue Services

Revenue Impact of Changing to Single Sales Factor
Tax Year 2000 - C-Corporations Only

Industry	Total Industry # of Firms	Total Industry Revenue	Firms with Increase in Tax Liability # of Firms	Firms with Increase in Tax Liability Revenue	Firms with Decrease in Tax Liability # of Firms	Firms with Decrease in Tax Liability Revenue	# of Firms with No Change
Lumber	248	(980,446)	4	17,932	14	(998,377)	230
Furniture	28	($377,902)	5	$25,084	3	(402,986)	20
Stone, Clay, Glass, Etc.	106	$126,779	9	$243,303	4	(116,524)	93
Primary Metals	68	$9,832	5	$103,283	5	(93,451)	58
Fabricated Metals	145	($275,014)	29	$84,757	13	(359,771)	103
Machinery & Computers	150	$243,735	42	$283,818	10	(40,083)	98
Electric Equipment	161	($1,155,900)	53	$272,514	24	(1,428,414)	84
Motor Vehicles	19	$316,438	6	$319,143	1	(2,705)	12
Rest of Transportation Equip.	61	($4,634,206)	7	$56,164	4	(4,690,370)	50
Instruments	84	$238,020	37	$280,328	4	(42,308)	43
Miscellaneous Manuf.	198	($318,801)	29	$304,136	14	(622,937)	155
Food	135	$1,176,746	38	$1,204,244	7	(27,498)	90
Tobacco Manuf.	10	$654,858	5	$654,858	0	0	5
Textiles	157	$162,129	15	$162,695	1	(566)	141
Apparel	66	($675,354)	10	$41,595	6	(716,949)	50
Paper	62	($334,312)	14	$434,816	10	(769,128)	38
Printing	158	$97,388	35	$283,718	6	(186,330)	117
Chemicals	128	$1,596,240	52	$1,900,621	13	(304,381)	63
Petroleum Products	76	$412,070	8	$412,081	1	(11)	67
Rubber	75	$75,111	12	$85,512	4	(10,401)	59
Leather	76	($308,217)	2	$2,379	6	(310,596)	68
Mining							
Construction							
Railroad							
Trucking							
Local/Interurban							
Air Transportation							
Other Transportation							
Communication							
Public Utilities							
Banking	26	$2,239	1	$8,920	3	(6,682)	22
Insurance	337	$24,322	23	$28,736	16	(4,414)	298
Credit & Finance	666	($768,530)	70	$4,584	92	(773,114)	504
Real Estate							
Eating & Drinking							
Rest of Retail							
Wholesale							
Hotels							
Personal Servs. & Repair							
Private Household							
Auto Repair/Services							
Misc. Business Services							
Amusement & Recreation							
Motion Pictures							
Medical							
Misc. Professional Services							
Education							
Non-Profit Organizations							
Agric./Forest/Fish Services							
Total	**3,236**	**($4,692,775)**	**511**	**$7,215,221**	**261**	**(11,907,996)**	**2,464**

Source: Maine Revenue Services (Edited by OFPR)

Appendix E

Economic Impact of Single-sales Factor Apportionment

Estimated Economic Impacts of Maine Changing to Single-sales Apportionment for Business Profits

prepared for:

Maine State Legislature, Office of Fiscal and Program Review

prepared by:

Maine State Planning Office

November 1999

Overview:
Estimated Economic Impact of Maine Changing to a Single-sales Factor Apportionment
(estimated using the Maine State Planning Office REMI* model of Maine's economy)

	Conservative Scenario** (low estimate)	Optimistic Scenario*** (high estimate)
Stimulus: Initial Net Revenue Change (beginning 2000)	-$9.6 million	-$9.6 million
Total Maine Employment Change (by 2005)	+381	+1,040
Total Maine Personal Income Change (by 2005)	+$16.3 million	+$39.8 million
Total Maine Industry Output Change (by 2005)	+$32.6 million	+$85.0 million
Total Maine Gross State Product Change (by 2005)	+$19.4 million	+$49.0 million
Total Maine Population Change (by 2005)	+361	+1,240

* Provided by Regional Economic Models, Inc., Amherst, MA

**Conservative Scenario: firms with an estimated revenue change "increase" or "decrease" are treated as having equal impacts on the Maine economy

***Optimistic Scenario: firms with an estimated revenue "increase" are assumed to have no adverse economic affect on Maine as a result of the policy change

Source: Maine State Planning Office (November 1999), based on data provided by Maine Revenue Services

Impact of Changing to Single Sales Factor Apportionment
Conservative Scenario: Estimated Employment Change by Industry
(Private Sector Gainers & Losers Ranked by Estimated 2005 Employment Change)

Rank	Private Sector Industry	Gainers	Losers
1	Rest of Transp. Equip.	102.5	-
2	Lumber	63.9	-
3	Agri/For/Fish Serv	37.5	-
4	Construction	35.0	-
5	Misc. Manufact	31.0	-
6	Electric Equip.	26.3	-
7	Apparel	23.6	-
8	Wholesale	17.6	-
9	Rest of Retail	15.7	-
10	Non-Profit Org.	11.2	-
11	Eating & Drinking	10.1	-
12	Leather	9.6	-
13	Public Utilities	8.8	-
14	Paper	8.3	-
15	Fabricated Metals	7.8	-
16	Credit & Finance	6.8	-
17	Furniture	5.1	-
18	Amusem & Rec	4.8	-
19	Education	4.1	-
20	Mining	3.8	-
21	Banking	3.7	-
22	Private Household	3.6	-
23	Insurance	3.3	-
24	Pers Service & Repair	2.6	-
25	Real Estate	2.4	-
26	Auto Rep/Serv	2.3	-
27	Stone,Clay,Etc	1.9	-
28	Misc. Prof. Serv.	0.4	-
29	Motion Pictures	0.2	-
30	Local/Interurban	0.2	-
31	Instruments	0.0	-
32	Tobacco Manuf	0.0	-
33	Railroad	0.0	-
34	Trucking	-	-0.1
35	Petro Products	-	-0.2
36	Primary Metals	-	-0.4
37	Printing	-	-1.1
38	Air Transportation	-	-1.2
39	Hotels	-	-1.3
40	Rubber	-	-1.4
41	Communication	-	-2.3
42	Textiles	-	-3.8
43	Machin & Comput	-	-3.8
44	Other Transport	-	-7.1
45	Motor Vehicles	-	-7.5
46	Misc Bus. Serv.	-	-8.3
47	Medical	-	-8.3
48	Food	-	-21.9
49	Chemicals	-	-26.6
	Subtotals (Gainers/Losers)	454.1	-95.4
	Net Private Sector Employment Change	358.7	-

Source: Maine State Planning Office (November 1999), based on data provided by Maine Revenue Services

Impact of Changing to Single Sales Factor Apportionment
Optimistic Scenario: Estimated Employment Change by Industry
(Private Sector Gainers & Losers Ranked by Estimated 2005 Employment Change)

Rank	Private Sector Industry	Gainers	Losers
1	Rest of Retail	126.1	-
2	Rest of Transp. Equip.	104.7	-
3	Construction	96.2	-
4	Lumber	68.4	-
5	Agri/For/Fish Serv	47.8	-
6	Miscellaneous Manuf.	46.0	-
7	Wholesale	43.8	-
8	Non-Profit Org.	41.6	-
9	Eating & Drinking	41.6	-
10	Misc Bus. Serv.	39.8	-
11	Misc Prof. Serv.	39.6	-
12	Electric Equip.	30.6	-
13	Apparel	25.3	-
14	Amusem. & Rec.	20.7	-
15	Pers Service & Repair	15.9	-
16	Education	15.7	-
17	Public Utilities	13.6	-
18	Paper	12.6	-
19	Banking	11.3	-
20	Auto Rep/Serv	10.5	-
21	Trucking	10.1	-
22	Leather	9.9	-
23	Insurance	9.8	-
24	Fabricated Metals	9.3	-
25	Private Household	9.3	-
26	Credit & Finance	8.0	-
27	Hotels	7.0	-
28	Communication	6.6	-
29	Real Estate	6.5	-
30	Furniture	6.0	-
31	Stone,Clay,Etc	5.7	-
32	Food	5.3	-
33	Printing	4.2	-
34	Mining	4.0	-
35	Local/Interurban	2.7	-
36	Chemicals	2.6	-
37	Other Transport	2.2	-
38	Motion Pictures	1.9	-
39	Machin & Comput	1.6	-
40	Textiles	1.3	-
41	Air Transportation	1.0	-
42	Rubber	0.9	-
43	Primary Metals	0.8	-
44	Railroad	0.6	-
45	Petro Products	0.3	-
46	Motor Vehicles	0.1	-
47	Instruments	0.1	-
48	Tobacco Manuf	0.0	-
49	Medical	-	-7.4
	Subtotals (Gainers/Losers)	949.4	-7.4
	Net Private Sector Employment Change	942.0	

Source: Maine State Planning Office (November 1999), based on data provided by Maine Revenue Services

Conservative Scenario: Net Estimated Revenue Change by Industry*
(data reflecting stimulus fed to REMI economic model: low scenario)

(note: all firms with estimated revenue change increase or decrease are treated equally in economic impact analysis)

Industry Name	2000	2001	2002	2003	2004	2005
Lumber	($2,034,154)	($2,124,715)	($2,138,527)	($2,250,228)	($2,324,671)	($2,429,601)
Furniture	($792,664)	($796,465)	($806,171)	($814,447)	($812,227)	($820,378)
Stone, Clay, Glass, Etc.	$372,760	$366,447	$397,272	$365,339	$351,993	$352,461
Primary Metals	$28,464	$27,216	$29,524	$26,358	$24,727	$24,014
Fabricated Metals	($555,190)	($581,785)	($583,322)	($619,401)	($641,950)	($671,231)
Machinery & Computers	$547,369	$548,301	$563,189	$560,566	$556,155	$559,096
Electric Equipment	($2,393,903)	($2,433,356)	($2,455,870)	($2,518,710)	($2,540,453)	($2,595,626)
Motor Vehicles	$687,001	$733,342	$748,209	$792,223	$832,235	$904,308
Rest of Transportation Equip.	($9,748,071)	($9,852,324)	($9,979,726)	($10,134,095)	($10,164,955)	($10,328,799)
Instruments	$519,785	$531,854	$543,430	$551,855	$557,712	$572,332
Miscellaneous Manuf.	($634,783)	($650,349)	($647,124)	($675,798)	($687,362)	($704,648)
Food	$2,560,859	$2,607,034	$2,662,095	$2,698,733	$2,721,037	$2,767,976
Tobacco Manuf.	$1,422,230	$1,438,843	$1,467,535	$1,479,813	$1,483,417	$1,510,616
Textiles	$361,817	$364,402	$373,930	$373,053	$362,121	$348,931
Apparel	($1,414,147)	($1,421,708)	($1,436,910)	($1,453,977)	($1,450,992)	($1,466,031)
Paper	($626,197)	($633,625)	($623,414)	($653,115)	($658,322)	($665,512)
Printing	$241,010	$239,384	$251,016	$245,312	$241,338	$243,822
Chemicals	$3,483,236	$3,569,539	$3,646,722	$3,736,757	$3,804,919	$3,936,143
Petroleum Products	$892,905	$911,456	$929,397	$923,774	$909,113	$908,573
Rubber	$164,378	$167,785	$171,549	$171,942	$171,396	$173,124
Leather	($605,380)	($636,663)	($634,298)	($680,526)	($709,246)	($754,234)
Mining	($777,302)	($793,484)	($795,094)	($825,858)	($837,722)	($856,423)
Construction	($8,469)	($11,888)	$1,388	($10,932)	($29,195)	($26,402)
Railroad	$97,582	$97,464	$111,901	$100,266	$97,633	$100,061
Trucking	$191,005	$195,744	$211,060	$206,836	$208,226	$215,745
Local/Interurban	$10,080	$9,609	$11,558	$9,717	$9,338	$9,502
Air Transportation	$168,850	$188,066	$197,697	$215,399	$234,914	$261,313
Other Transportation	$1,174,399	$1,193,610	$1,290,966	$1,229,875	$1,251,440	$1,287,447
Communication	$1,902,366	$1,996,722	$2,122,249	$2,153,649	$2,222,364	$2,345,029
Public Utilities	($2,190,984)	($2,272,283)	($2,309,622)	($2,443,778)	($2,484,076)	($2,601,941)
Banking	$5,471	$5,474	$5,759	$5,642	$5,750	$5,936
Insurance	$72,624	$73,585	$82,162	$77,358	$76,797	$79,357
Credit & Finance	($1,539,997)	($1,635,359)	($1,686,505)	($1,816,239)	($1,909,159)	($2,041,318)
Real Estate	($224,148)	($240,605)	($245,779)	($267,795)	($279,648)	($293,005)
Eating & Drinking	$32,672	$31,018	$37,768	$32,430	$30,113	$30,491
Rest of Retail	$443,519	$451,549	$540,514	$456,875	$437,147	$449,160
Wholesale	($2,002,937)	($2,069,398)	($2,120,818)	($2,265,164)	($2,367,424)	($2,494,670)
Hotels	$28,488	$29,640	$32,891	$32,880	$33,746	$35,610
Personal Servs. & Repair	$46,222	$48,844	$53,521	$55,550	$57,293	$62,379
Private Household	$0	$0	$0	$0	$0	$0
Auto Repair/Services	$50,647	$52,159	$56,411	$56,942	$58,870	$63,180
Misc. Business Services	$1,265,550	$1,342,368	$1,441,732	$1,516,166	$1,594,996	$1,705,676
Amusement & Recreation	$17,986	$17,556	$21,123	$17,815	$16,777	$16,978
Motion Pictures	($6,251)	($6,988)	($6,531)	($8,302)	($9,259)	($10,042)
Medical	$143,079	$152,811	$167,913	$172,974	$182,357	$195,895
Misc. Professional Services	$734,728	$769,512	$103,723	$832,896	$855,240	$896,134
Education	$2,110	$2,004	$2,539	$2,084	$1,929	$1,966
Non-Profit Organizations	$0	$0	$0	$0	$0	$0
Agric./Forest/Fish Services	($1,674,654)	($1,690,962)	($1,611,663)	($1,631,832)	($1,626,577)	($1,637,422)
Estimated Net Change	**($9,560,040)**	**($9,688,618)**	**($9,804,631)**	**($9,969,120)**	**($10,142,142)**	**($10,334,028)**

* All Estimates by Maine State Planning Office (November 1999), based on data provided by Maine Revenue Services

Optimistic Scenario: Estimated Revenue Change Decreases by Industry* (data reflecting stimulus fed to REMI economic model: high scenario)

(note: all firms with revenue change increase as a result of Single-sales Factor Apport. are dropped from economic impact analysis)

Industry Name	2000	2001	2002	2003	2004	2005
Lumber	($2,052,086)	($2,079,686)	($2,107,657)	($2,136,004)	($2,164,732)	($2,193,846)
Furniture	($817,748)	($828,746)	($839,892)	($851,188)	($862,636)	($874,238)
Stone, Clay, Glass, Etc.	($116,524)	($118,092)	($119,680)	($121,289)	($122,921)	($124,574)
Primary Metals	($93,451)	($94,708)	($95,982)	($97,273)	($98,581)	($99,907)
Fabricated Metals	($639,947)	($648,554)	($657,277)	($666,117)	($675,076)	($684,155)
Machinery & Computers	($40,083)	($40,622)	($41,169)	($41,722)	($42,283)	($42,852)
Electric Equipment	($2,666,417)	($2,702,279)	($2,738,623)	($2,775,457)	($2,812,785)	($2,850,616)
Motor Vehicles	($2,705)	($2,742)	($2,779)	($2,816)	($2,854)	($2,892)
Rest of Transportation Equip.	($9,804,235)	($9,936,097)	($10,069,733)	($10,205,166)	($10,342,421)	($10,481,521)
Instruments	($42,308)	($42,877)	($43,454)	($44,038)	($44,630)	($45,231)
Miscellaneous Manuf.	($938,919)	($951,547)	($964,345)	($977,315)	($990,459)	($1,003,780)
Food	($27,498)	($27,868)	($28,242)	($28,622)	($29,007)	($29,397)
Tobacco Manuf.	$0	$0	$0	$0	$0	$0
Textiles	($566)	($574)	($581)	($589)	($597)	($605)
Apparel	($1,455,742)	($1,475,321)	($1,495,163)	($1,515,272)	($1,535,652)	($1,556,306)
Paper	($1,061,013)	($1,075,283)	($1,089,746)	($1,104,402)	($1,119,256)	($1,134,309)
Printing	($186,330)	($188,836)	($191,375)	($193,949)	($196,558)	($199,202)
Chemicals	($304,381)	($308,475)	($312,624)	($316,828)	($321,089)	($325,408)
Petroleum Products	($11)	($11)	($11)	($11)	($11)	($11)
Rubber	($10,401)	($10,541)	($10,683)	($10,826)	($10,972)	($11,120)
Leather	($607,759)	($615,934)	($624,218)	($632,613)	($641,121)	($649,744)
Mining	($794,173)	($804,854)	($815,679)	($826,650)	($837,768)	($849,035)
Construction	($157,099)	($159,212)	($161,353)	($163,524)	($165,723)	($167,952)
Railroad	($9,961)	($10,095)	($10,231)	($10,369)	($10,508)	($10,649)
Trucking	($15,240)	($15,444)	($15,652)	($15,863)	($16,076)	($16,292)
Local/Interurban	($1,275)	($1,293)	($1,310)	($1,328)	($1,345)	($1,363)
Air Transportation	($20,849)	($21,130)	($21,414)	($21,702)	($21,994)	($22,290)
Other Transportation	($8,713)	($8,831)	($8,949)	($9,070)	($9,192)	($9,315)
Communication	($92,863)	($94,112)	($95,378)	($96,660)	($97,960)	($99,278)
Public Utilities	($2,770,976)	($2,808,244)	($2,846,013)	($2,884,291)	($2,923,083)	($2,962,397)
Banking	($6,682)	($6,772)	($6,863)	($6,955)	($7,049)	($7,143)
Insurance	($4,414)	($4,473)	($4,534)	($4,594)	($4,656)	($4,719)
Credit & Finance	($1,544,581)	($1,565,355)	($1,586,409)	($1,607,745)	($1,629,368)	($1,651,283)
Real Estate	($271,668)	($275,321)	($279,024)	($282,777)	($286,580)	($290,435)
Eating & Drinking	($11,151)	($11,301)	($11,453)	($11,607)	($11,763)	($11,921)
Rest of Retail	($3,002,443)	($3,042,824)	($3,083,749)	($3,125,224)	($3,167,257)	($3,209,855)
Wholesale	($2,985,408)	($3,025,561)	($3,066,253)	($3,107,493)	($3,149,287)	($3,191,643)
Hotels	($656)	($665)	($674)	($683)	($692)	($701)
Personal Servs. & Repair	($652)	($660)	($669)	($678)	($687)	($697)
Private Household	$0	$0	$0	$0	$0	$0
Auto Repair/Services	($2,236)	($2,266)	($2,297)	($2,327)	($2,359)	($2,391)
Misc. Business Services	($16,024)	($16,240)	($16,458)	($16,680)	($16,904)	($17,131)
Amusement & Recreation	($5,537)	($5,611)	($5,686)	($5,763)	($5,840)	($5,919)
Motion Pictures	($6,260)	($6,344)	($6,430)	($6,516)	($6,604)	($6,693)
Medical	($14,198)	($14,389)	($14,583)	($14,779)	($14,978)	($15,179)
Misc. Professional Services	($62,287)	($63,125)	($63,974)	($64,834)	($65,706)	($66,590)
Education	($1,357)	($1,376)	($1,394)	($1,413)	($1,432)	($1,451)
Non-Profit Organizations	$0	$0	$0	$0	$0	$0
Agric./Forest/Fish Services	($1,694,578)	($1,717,370)	($1,740,468)	($1,763,876)	($1,787,599)	($1,811,642)
Estimated Total Decrease	**($34,369,407)**	**($34,831,659)**	**($35,300,128)**	**($35,774,898)**	**($36,256,054)**	**($36,743,680)**

* All Estimates by Maine State Planning Office (November 1999), based on data provided by Maine Revenue Services

Appendix F

Summary of Studies of Single-sales Factor Apportionment

Overview of Certain Studies of Changing the Weighting of the Sales Factor in Corporate Income Tax Apportionment

Study:	Single Factor Sales Apportionment for Illinois	Competitive Economic Choices for ... Massachusetts: A Summary of the Study	The Economic Benefits of Sales-Only Apportionment of Business Profits in New Hampshire
By Whom:	Prof. Goolsbee & Prof. Maydew (Univ. of Chicago)	DRI McGraw-Hill	DRI McGraw-Hill
For Whom:	Illinois Manufacturers Association	Raytheon Company	Business & Industry Association of NH
When:	December, 1996	1995	April, 1998
Methodology:	Analyzed actual experiences of 20 states that changed weighting of sales over 1977-1995, controlling for other factors, to estimate the effect in Illinois.	DRI Economic Model of Massachusetts employed to estimate the impact of changing to single sales in Massachusetts; study also analyzes effect of several other tax changes.	DRI Economic Model of New Hampshire with double the effective tax rate reduction to show the estimated effect of changing to single sales in New Hampshire.
Major Findings:	Estimates show significant positive effects on employment with an estimated 4.8% increase in jobs 285,000 New Jobs in Illinois (155,000 in Manufacturing) 1.9% increase in total employment by going from double-weighted sales to sales only apportionment with 4% increase in employment for manufacturing As long as property and payroll are included in the formula, there is a disincentive to location in the state The more states with single-sales factor apportionment the lower the impact from a change to increasing the weighting of sales	Estimates show 17,600 new jobs from baseline forecast Manufacturing jobs in defense have significant dynamic effects For every 10 job losses in defense industry, residents decrease by 11 to 12 and 6 to 7 labor force participants	Model run shows that the economic benefits are substantial 6,700 new jobs and $600 million increase in personal income created after ten-years NHDRA estimate shows that over 85% unaffected; larger number of taxpayers with relatively small tax increases ($1,350 average for losers) while average tax decrease was $3,675 for gainers Single-sales factor states (Iowa, Nebraska and Texas) have enjoyed double-digit export gains in the 1990's, outpacing the nation Massachusetts surpassed New Hampshire in payroll growth in 1997 amd reversed a 12-year decline in manufacturing employment by gaining market share in all but a few industries
Static Revenue Estimate:	$46 million reduction in corporate income tax	$30 to $50 million reduction, single sales only; $109 million for broad initiative	$10.6 million FY99
Dynamic Revenue Effect:	$200 million plus increase in total taxes	Break-even in less than 2 years, $100 million plus after 5 years	Break-even after 4 years, growing to $6 million plus increase in taxes after 10 years.
$ to Create a Job: *	~$200 to create one additional job	~$6,200 to create one additional job for broad initiative	~$1,600 to create one additional job

* Estimate Calculated by Dividing Number of Jobs created after 5 to 10 years by the average annual static revenue reduction.
Note: An analysis using the REMI Model estimated this ratio to be ~$26,250 to ~$9,600 per job created in Maine.