REPORT OF THE

JOINT STANDING COMMITTEE ON TAXATION

TO THE

110TH LEGISLATURE

ON THE STATUTORY REVIEW OF

THE SALES AND USE TAX EXEMPTIONS

CONTAINED IN TITLE 36 SECTION 1760

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SUMMARY OF THE REPORT OF THE JOINT STANDING COMMITTEE ON TAXATION TO THE 110TH LEGISLATURE ON THE STATUTORY REVIEW OF THE SALES AND USE TAX EXEMPTIONS CONTAINED IN TITLE 36 SECTION 1760.

Title I MRSA Chapter 31 requires that the sales tax exemptions contained in Title 36, Part 3, except the exemptions provided by Title 36, section 1760, subsections 1 and 2, shall be reviewed by January 1, 1982 and every 4 years thereafter. The legislative committee having jurisdiction over the provisions, the Joint Standing Committee on Taxation, is required to submit to the Legislature within 30 legislative days after the convening of the second regular session, a report evaluating the advisability of retaining the statutory provisions subject to review. The report must contain the following information:

1. An evaluation of the past effectiveness of the statutory provision;
2. An evaluation of the future need for the statutory provision;
3. An examination of alternative methods of attaining the purpose of the provision;
4. An estimate of the cost of retaining the provision;
5. An evaluation of the economic impact of the exemption on the state or community;
6. A determination of which groups or individuals are assisted by the exemption and their approximate number; and

7. A recommendation of the committee as to the amendment, repeal, replacement or retention of the provision, including legislation, if necessary.

The Taxation Committee held public hearings on the sales tax exemptions subject to review on October 14th and 15th, 1981. The hearings were sparsely attended. Testimony was heard relating to the exemptions for new machinery and equipment, air and water pollution control equipment, vending machine sales, products used in agricultural production and funeral services.

The Sales and Use Tax was enacted and signed into law in 1951. It has been increased over the last thirty years from 2% to 5%. The total amount collected from the sales tax in Maine in fiscal year 1981 was $235,801,536 which accounts for approximately 40% of total state revenue.

Although there was some sympathy among some members of the Taxation Committee for major reform of the sales tax by elimination of most of the exemptions accompanied by a reduction of the overall tax rate, it was generally not believed that the time was right for such a comprehensive change. However there were three recommendations for changes made by the Committee. Three members (Teague, Masterman and Day) recommended repeal of the exemption for the sale of motor fuel. Three members (Teague, Masterman and Day) recommend repeal of the exemption for the sale of liquor by state and agency stores. Ten members (Teague, Wood, Post, Kane, Kilcoyne, Hayden, Higgins, Masterman, Ingraham and Day) recommend repeal of the exemption for the sale of cigarettes.

Those changes which are recommended are not intended to increase the general fund revenue of the State of Maine. The repeal of the exemption for motor fuels would add approximately $36,000,000 as part of a more comprehensive program to provide sufficient funding to the Department of Transportation.

The recommendations to repeal the exemptions for cigarettes and liquor are intended not to bring additional money into the state but to provide sufficient revenue to increase the amount of state-municipal revenue sharing to provide some relief from the property tax on the local level.

I. Introduction

Title I MRSA Chapter 31 requires that the sales tax exemptions contained in Title 36, Part 3, except the exemptions provided by Title 36, section 1760, subsections 1 and 2, shall be reviewed by January 1, 1982 and every 4 years thereafter. The legislative committee having jurisdiction over the provisions, the Joint Standing Committee on Taxation, is required to submit to the Legislature within 30 legislative days after the convening of the second regular session, a report evaluating the advisability of retaining the statutory provisions subject to review. The report must contain the following information:

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5. An evaluation of the economic impact of the exemption on the state or community;
6. A determination of which groups or individuals are assisted by the exemption and their approximate number; and
7. A recommendation of the committee as to the amendment, repeal, replacement or retention of the provision, including legislation, if necessary.

The committee must devote at least part of one public hearing to the provision being reviewed prior to making its report.

II. Public Hearing

Pursuant to statutory requirements a public hearing was held by the Taxation Committee on October 14th and 15th, 1981 for the purpose of inviting public comment on the provisions subject to review. (Copy of notice attached as Appendix .) The hearings were sparsely attended. The following persons spoke:

October 14th

1. Henry Magnusson, Executive Director of the Paper Industry Information Office testified in favor of retention of the sales tax exemptions for new machinery and equipment and for water and air pollution control facilities. He stated that one-third of the cost of expanding paper company operations was for air and water pollution control equipment and that without the exemptions, Maine companies would be at a competitive disadvantage with companies in other states.

2. Linda Gifford spoke on behalf of Pine State Vending Company in favor of retaining the provision of sales tax law which permits taxation of products at the wholesale level where at least 50% of sales of products for internal human consumption are made through vending machines.

3. Jon Olson of the Maine Farm Bureau spoke in favor of the exemption for products used in agricultural production and bait.

4. David Bicknell of the Manufactured Housing Association spoke in favor of retaining the exemption of certain costs in the sale of mobile and modular homes.

October 15th

1. Richard Bibber, President of the Maine Funeral Directors Association and Linda Gifford, on behalf of the same or-

ganization, spoke in favor of retention of the exemption for funeral services. They stated that the estimate of the cost of the exemption prepared by the Bureau of Taxation was too high.

Bertrand St. Germain, Supervisor of the Sales Tax Section of the Bureau of Taxation was present on both days of the hearing and answered several questions from Committee members.

III. General Background of the Sales Tax

The first sales tax in the United States was enacted by Mississippi in 1932. By the end of 1938, 23 states and Hawaii had enacted some kind of tax on sales. After World War II, many additional states enacted a sales tax. Today, 45 states and the District of Columbia impose some form of tax on sales. Sales tax rates range from a low of 2% in Oklahoma to a high of 7 1/2% in Connecticut. Eight states, including Maine, have set the rate of their tax at 5%.

The variety of sales taxes imposed is very wide. Some states tax only transfers of property; some also tax services. Some exempt food and necessities; some do not. Some permit local jurisdictions to impose an additional tax.

The three major types of taxes on the transfer of personal property and services. The retail sales tax is a tax imposed on the buyer at the time of sale of the property or service. The tax is a percentage of sales price. A gross receipts tax is a tax imposed on the seller as a percentage of the amount of its gross receipts without reduction for the costs of producing the goods or services. A value-added tax is a tax imposed at each level of transfer upon the amount of value added by the taxpayer to the product. It is measured as a percentage of gross sales less certain costs of producing the goods or services.

IV. <u>History of the Sales Tax Law in Maine</u>

The Sales and Use Tax Law was enacted and signed into law on May 3, 1951. Effective July 1, 1951, a tax of 2% was imposed on the value of non-exempt personal property sold at retail in the State of Maine. The impetus for the tax was the need for additional revenue to fund state government. The enactment of the sales tax was ideologically coupled with the repeal of the state (real) property tax.

The original sales tax contained 14 exemptions. These included exemptions for constitutional provisions; state and political subdivisions; food for human consumption; medicines, school meals; seed, feed and fertilizer; motor vehicle fuel; coal, oil and wood; cigars, tobacco and cigarettes; sales of liquor; containers; religious books and utensils; publications not exceeding 3 months; and hospitals and churches.

Debate on the original bill was extensive. Proponents argued that the State needed the revenue, that the property tax was inequitable and that a sales tax with exemptions for necessities would not unfavorably affect low income persons. Opponents argued that low-income persons could not afford to pay an additional tax. There was also some feeling that all the exemptions ought to be eliminated and the overall rate of the tax decreased to compensate.

The total amount collected from the sales tax in Maine in fiscal year 1981 was $235,801,536. In fiscal year 1980 sales tax revenues accounted for 40.1% of total state revenue. Percentages are not yet available for FY 81, but no dramatic change is expected.

Two years ago a similar review of sales tax exemptions was conducted by the Taxation Committee during the 109th Legislature. At that time the law required that only a portion of the exemptions be reviewed (subsection 15-23 and 25-29). As a result of that review, several changes were made to streamline the review procedure, an obsolete exemption was repealed and some changes were made in the exemption regarding the sales of boats to non-residents.

V. Review of Individual Exemptions.

Following is the detailed description of the review of each sales tax exemption by the Taxation Committee. Each exemption is listed by number followed by the text of the exemption from 36 MRSA §1760. The following information, as required by statute, is also listed:

A. The purpose of the exemption,

B. Groups or individuals assisted by the exemption,

C. The cost of retaining the provision, based on estimates provided by the Bureau of Taxation,

D. The economic impact of the exemption,

E. The past effectiveness of the provision,

F. The future need for the exemption,

G. Any alternative methods for accomplishing the purpose of the exemption, and

H. The Committee's recommendation as to the amendment, repeal, replacement or retention of the provision.

Legislation to accomplish the recommendations of the Committee is attached as Section VIII.

3. "Food products for human consumption. Sales of food products. The term "food products" shall, except as otherwise provided, include cereals and cereal products; milk and milk products, other than candy and confectionery, but including ice cream; oleomargarine; meat and meat products; fish and fish products; eggs and egg products; vegetable and vegetable products; fruit and fruit products, including pure fruit juices; spices, condiments and salt; sugar and sugar products other than candy and confectionery; coffee and coffee substitutes; tea, cocoa and cocoa products, other than candy and confectionery.

"Food products" shall not include spirituous, malt or vinous liquors; soft drinks, sodas or beverages such as are ordinarily dispensed at bars or soda fountains or in connection therewith; medicines, tonics, vitamins and preparations in liquid, powdered, granular, tablet, capsule, lozenge or pill form, sold as dietary supplements or adjuncts, except when sold on the prescription of a physician; water, including mineral bottled and carbonated waters and ice.

"Food products" shall not include meals served on or off the premises of the retailer; or drinks or food furnished, prepared or served for consumption at tables, chairs or counters, or from trays, glasses, dishes or other tableware provided by the retailer.

This exemption does not apply to products sold to a person for resale through coin-operated vending machines when sold to a person whose gross receipts from the retail sale of tangible personal property derived through sales from vending machines are more than 50% of his gross receipts.

The sale of food products ordinarily sold for immediate consumption on or near the location of the retailer is a taxable sale even though such products are sold on a "take out" or "to go" order and are actually packaged or wrapped and taken from the premises."

A. Purpose of the exemption. This exemption was one of the exemptions which was part of the Sales Tax Law when it was originally enacted in 1951. The apparent purpose of the exemption was to lessen the effect of the tax on low income persons by exempting food, which is not only a necessity but also a relatively large proportion of the budget of a low income person and relatively difficult to reduce because of the impact of a tax.

B. Groups or individuals assisted by the exemption. Substantially all Maine residents purchase or consume food which receives this exemption.

C. Cost of retaining this provision. $59,600,000.

D. Economic impact. It is unlikely that the existence of this exemption either encourages or discourages individuals or businesses locating in Maine. The demand for food is probably effected very little by the exemption. However, a sales tax on food in Maine would probably encourage a small number of persons in border communities to make food purchases in New Hampshire that they now make in Maine.

E. Past effectiveness. Exemption of food from taxation has helped to reduce the burden of the sales tax on low income families and has been effective in making the sales tax less regressive. Although the food exemption is the largest in terms of cost, elimination of that exemption alone could reduce the sales tax by only 0.4% below the current 5%.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. One alternative method for reducing the regressive nature of a comprehensive sales tax is to provide a state income tax credit for sales tax paid for necessities (food and other products if desired). This method can be very progressive depending upon amount of the credit and the way it is applied. One disadvantage of this alternative is that many very low income persons would not file income tax returns and may not receive the advantage of a credit for sales tax. Several states have adopted this alternative, however.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

4. Ships stores. "Sale of cabin, deck, engine supplies and bunkering oil to ships engaged in transporting cargo or passengers for hire in interstate or foreign commerce."

A. Purpose. This exemption was enacted in 1953 without legislative debate. Purposes for the exemption probably included avoiding State involvement in interstate or foreign commerce and avoiding situations where ship owners purchase all their supplies in a state with no sales tax.

B. Groups or individuals assisted by this exemption. The primary beneficiaries are ship owners engaged in interstate or foreign commerce. Secondary beneficiaries are ship supply companies located in Maine.

C. Cost of retaining this provision. $550,000

D. Economic impact. It is likely that this exemption encourages increased purchases in the State of Maine.

E. Past effectiveness. This exemption has probably been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be viable alternatives to this approach. Many ship owners who benefit from this exemption do not file income tax returns in Maine. Grant or development programs do not accomplish the same effect.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

5. Medicines. "Sales of medicines for human beings sold on doctor's prescription."

A. Purpose. This exemption was enacted in 1951 as part of the original Sales Tax Law. The only comment in legislative debate was that it didn't seem fair to tax "some body's misfortune." This was undoubtedly part of the overall attempt to increase the equity of the Sales Tax by not taxing nondiscretionary purchases.

B. Groups or individuals assisted by this exemption. It is very difficult to estimate the numbers of persons who benefit from this exemption. Nearly everyone is prescribed medicine from time to time. It would seem fair to say that the persons who benefit the most are older persons and persons with severe illnesses requiring chronic medication. To the extent that insurance companies and government agencies pay for prescriptions, they also benefit.

C. Cost of retaining this provision. $4,400,000.

D. Eonomic impact. If this exemption were removed, prescription medicines would be more costly. Health insurance rates could rise. Medical assistance programs may need additional resources to cover persons who cannot afford to pay for medicines.

E. Past effectiveness. This exemption has meant that prescription medicines have not cost as much as if they were subject to a sales tax.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. If a sales tax were imposed upon prescription medicines one alternative method of providing relief would be to provide a credit for sales tax paid for prescription medicines. The disadvantage of this alternative is that many lower income persons would not file income tax returns.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

5-A. "Prosthetic devices. Sale of prosthetic aids, hearing aids or eyeglasses and artificial devices designed for the use of a particular individual to correct or alleviate physical incapacity; and sale of crutches and wheelchairs for the use of invalids and crippled persons and not for rental."

A. Purpose. This exemption was enacted in 1973 without legislative debate. The purpose undoubtedly was to provide a benefit to handicapped persons who require various prosthetic devices and who probably have high medical expenses and may be dependent upon government assistance.

B. Groups or individuals assisted by this exemption. Persons benefitted by this exemption are disabled persons who require prosthetic devices. Government agencies and insurance companies also benefit to the extent they reimburse for such expenses.

C. Cost of retaining this provision. $400,000.

D. Economic impact. The exemption probably does not encourage or discourage economic activities.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the future.

G. Alternative methods. Alternative methods of accomplishing this goal include an income tax credit or a direct subsidy program for persons purchasing prosthetic devices.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

6. "Certain meals. Sales of meals:

A. Served by public or private schools, school districts, student organizations and parent-teacher associations to the students or teachers of a school;

B. To patients and inmates of hospitals licensed by the State for the care of human beings and other institutions licensed by the State for the hospitalization or nursing care of human beings, or institutions, agencies, hospitals, boarding homes and boarding houses licensed by the Department of Human Services under Title 22, Subtitle 5, and Title 34, section 2211; and

C. By hospitals, schools, long-term care facilities, food contractors and restaurants to incorporated nonprofit area agencies on aging for the purpose of providing meals to the elderly."

A. Purpose. Paragraphs A and B of this exemption were enacted in 1951 as part of the original Sales Tax Law. The explanation given was that there was little money involved and good reason for exempting such sales. The theory was probably an extension of the belief that food for home consumption should be excluded as a necessity. Although school and hospital meals do not constitute home consumption, neither are they discredionary purchases which can be avoided by low income persons who cannot afford to pay a sales tax. The exemption for meals for the elderly was enacted in 1979 on the theory that since these meals are funded by state and federal programs, maximum use could be made of those funds if a state sales tax did not have to be paid.

B. Groups and individuals assisted by the exemption. Persons assisted include those purchasing meals from schools, hospitals, nursing and boarding homes and those served by the meals programs operated by non-profit area agencies on aging.

C. Cost of retaining this provision. $3,927,500.

D. Economic impact. This provision helps to keep down the cost of meals served by schools and medical institutions. It helps to maximize the number of meals which can be served to eligible elderly persons.

E. Past effectiveness. This exemption has been effective in accomplishing its purposes.

F. Future need. It does not appear that the need for this exemption has changed.

G. Alternative methods. One alternative method of accomplishing the purpose of this exemption would be an income tax credit for sales tax paid. Another method would be to provide greater government subsidies for school meals and meals for the elderly.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

7. "Products used in agricultural production and bait. Sales of seed, feed, hormones, fertilizer, pesticides, insecticides, fungicides, weed killers, defoliants, litter and medicine used in agricultural production and sales of bait to commercial fishermen."

A. Purpose. This exemption was enacted in 1951 as part of the original Sales Tax Law. Its purpose was to place farmers and fishermen on an equal basis with manufacturers who do not pay sales tax on their wholesale purchases which go into the production of their final products. This exemption was added to the bill by floor amendment in order to gain support from agricultural and fishing interests.

B. Groups or individuals assisted by the exemption. The Maine Farm Bureau estimates that there are approximately 3000 full-time farmers and 2000 part-time in the state who benefit from this exemption.

C. Cost of retaining this provision. $10,500,000.

D. Economic impact. This exemption has helped farmers and fishermen in Maine maintain competitiveness in comparison to those in other states. The Maine Farm Bureau at the public hearing on this exemption stated that a large percentage of a farmer's purchases are of feed and fertilizer. The exemption has relatively little effect on fishermen because bait is a very small part of their expenses. It is conceivable that if this exemption were removed some marginal farms might not be able to continue operation.

E. Past effectiveness. This exemption has been effective in accomplishing its original purpose.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. If this exemption were removed, the sales tax paid would be a deductible expense for income tax purposes; however, the only method to assure a dollar for dollar benefit would be an income tax credit. Another alternative would be a program to provide grants or loans to marginal operations.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

8. Motor vehicle fuel.. Sales of gasoline and motor fuels upon which a tax is now imposed by the State, or any other state or province, but the tax payable upon such fuels not used by vehicles on the highway shall be deducted from any refund of the gasoline tax sought by the purchaser; however, except for fuel sold for international flights, internal combustion engine fuel as defined in section 2902 bought and used for the purpose of propelling jet or turbojet engine aircraft shall not be exempt;

A. Purpose. This exemption was enacted with the original bill in 1951. The explanation was given in debate on the floor of the House that motor vehicle fuel should be exempt because it was subject to other taxation already. In order to ensure that motor vehicle fuel did not escape some taxation, the amount of the sales tax was deducted from refunds of motor vehicle fuel taxes due to off road usage.

B. Groups or individuals assisted by the exemption. All users of motor vehicle fuel for highway uses are assisted by the exemption in proportion to the amount of motor vehicle fuel consumed. This includes a very large number of automobile operators who each consume a relatively small amount of fuel and the owners of large transportation fleets which each consume a relatively large amount of fuel.

C. Cost of retaining this provision. $36,000,000.

D. Economic Impact. Removal of the exemption for highway motor fuel would increase the price of gasoline and other motor fuels. It could potentially, encourage lower consumption, increased availability of fuel and the purchase of more fuel efficient cars. On the other hand, removal of the exemption would also mean increased highway transportation costs which could decrease the availability of products and potentially discourage business development or expansion. It could encourage alternative methods of transportation. It could also encourage persons to buy fuel oil out-of-state, if convenient.

E. Past effectiveness. Because the original purpose of the exemption was to avoid additional burdens on a product already subject to taxation, the exemption has certainly served that purpose.

F. Future need. This exemption was primarily based upon principles of equity rather than a perceived need. Future need will depend upon current perceptions of equity and the balancing of the need for additional revenues.

G. Alternative methods. If the sales tax were to be imposed on motor vehicle fuel, relief could be granted through a reduction in the gasoline tax or through a state income tax credit for sales tax paid.

H. Recommendations. Three members of the Committee (Senator Teague and Representatives ay and Masterman) recommend that this exemption be repealed. Senator Emerson and Representative Higgins abstain. The remainder of the Committee recommends no change.

9. "Coal, oil and wood. Coal, oil, wood and all other fuels, except gas and electricity, when bought for cooking and heating in homes, mobile homes, hotels and apartment houses, and other buildings designed both for human habitation and sleeping."

A. Purpose. This exemption was enacted as part of the original law in 1951. The purpose of the exemption was to make the tax more progressive by exempting cooking and heating fuel which is both a necessity and a large portion of the income of a low income person.

There were amendments proposed to include gas and electricity but these exemptions contained in subsection 9-B and 9-C were not enacted until 1977.

B. Groups or individuals assisted by the exemption. The Office of Energy Resources estimates that 217,000 households heat with wood, 273,600 with oil and 4000 to 8000 with coal.

C. Cost of retaining this provision. $14,600,000.

D. Economic impact. Removal of this exemption would make certain types of heating and cooking fuel more expensive and could, for some people, encourage increased conservation. Persons with marginal incomes, would find it more difficult to pay fuel bills. There might be increased demands for state and local assistance programs for low income persons.

E. Past effectiveness. This exemption has undoubtly relieved the burden of the sales tax on low income persons who use the exempted types of fuel.

F. Future need. The need for this exemption does not appear to have changed. In fact the exemption may have acquired an additional purpose: to encourage the use of fuels for heating which are more efficient than electricity.

G. Alternative measures. One alternative to this exemption would be to provide an income tax credit for sales tax paid for home heating and cooking fuels. This alternative has the advantage that it could be progressively arranged so as to apply the maximum benefit to lower income persons and could possibly include all fuels without increasing the cost of the exemption. The disadvantage of this alternative is that many lower income persons would not file income tax returns.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

9-A. "Fuels for burning bluebery lands. Sales of all fuels used in burning blueberry fields."

A. Purpose. This exemption was enacted in 1973. Proponents of the exemption stated that its purpose was to provide equal treatment with potato growers who used fuel oil, without burning, to defoliate potato fields and received an exemption under sub-section 7. Apparently fuels used to burn blueberry fields had also been considered exempt until 1971 when a new ruling was made that the fire and not the fuel oil was the defoliant.

B. Groups or individuals assisted by the exemption. Persons who benefit to the greatest extent are people who own or manage large tracts of blueberry land. Small landowners use less fuel and benefit to a lesser degree.

C. Cost of retaining this provision. $62,500.

D. Economic impact. This exemption certainly reduces the cost of producing Maine blueberries and helps to make them more competitive on the national market. It is unclear whether the removal of this exemption would result in any land being removed from blueberry production.

E. Past effectiveness. The exemption has apparently been effective in accomplishing its purpose.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. If fuel used in burning blueberry fields were subject to a sales tax, the amount paid would be deductible for income tax purposes. Alternative methods of providing a dollar for dollar benefit would be a special income tax credit or a grant program.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

9-B. "Residential electricity. Sale of the first 750 kilowatt hours of residential electicity per month. For the purpose of this subsection, "residential electricity" shall mean electricity furnished to homes, mobile homes, boarding homes and apartment houses, with the exception of hotels and motels. Where residential electricity is furnished through one meter to more than one residential unit and where the electric utility applies its tariff on a per unit basis, the furnishing of electricity shall be deemed a separate sale for each unit to which the tariff applies."

A. Purpose. This exemption was enacted in 1977. The purpose was stated as being threefold: to continue the policy of exempting necessities, to remedy the inequity of some heating sources (oil, wood, coal) being exempt and others taxed, and to avoid the "double taxation" of a sales tax on the fuel adjustment allowances. The exemption was limited to 750 KWH hours was considered to be a conservative figure for an electrically heated home. It was not intended to encourage the use of electrical heat.

B. Groups or individuals assisted by the exemption. Nearly all households purchase electricity and benefit from this exemption. Approximately 60,000 heat with electricity.

C. Cost of retaining this provision. $5,200,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been only partially effective in accomplishing its purpose. The 750 kilowatt hour per month limitation means that those who heat with electricity may only receive an exemption for part of their heating costs during winter months. They are still not in an equal position with persons heating with coal, wood or oil who receive total heating exemption in addition to the electricity exemption which is not limited to heating.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. One alternative would be an income tax credit for sales tax paid on electricity. Another alternative would be increased State funding for energy assistance programs for low-income persons.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

9-C. "Residential gas. Sales of gas when bought for cooking and heating in residences. For the purpose of this subsection, "residences" shall mean homes, mobile homes, boarding homes and apartment houses, with the exception of hotels and motels."

A. Purpose. This exemption was part of the same bill as subsection 9-B "Residential electricity." The purpose was the same.

B. Groups or individuals assisted by this exemption. There are fewer than 25,000 households who use gas for cooking and heating.

C. Cost of retaining this provision. $260,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption appears to have accomplished its purpose. There may be some difficulty in determining whether gas purchased is used for cooking and heating or for other purposes.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. See exemption 9-B.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

10. "Cigarettes. Sales of cigarettes, subject to other taxes imposed by chapter 703."

A. Purpose. This exemption was enacted with the original bill in 1951. The explanation was given in debate on the floor of the House that cigarettes should be exempt from the sales tax because they were already subject to other taxation.

B. Groups or individuals assisted by the exemption. The Maine Lung Association estimates that 250,000 persons in the State of Maine smoke cigarettes. The Bureau of Taxation reports that 26 dealers and distributors are licensed to sell cigarettes in the State of Maine.

C. Cost of retaining this provision. $5,300,000.

D. Economic impact. Imposition of a sales tax on cigarettes could potentially decrease consumption, although the demand for cigarettes would probably not be as closely related to price as the demand for some other products. The increased price of cigarettes could encourage persons, for whom it is convenient, to purchase cigarettes in other states.

E. Past effectiveness. Because the original purpose of the exemption was to avoid additional burdens on a product already subject to taxation, the exemption has certainly served that purpose.

F. Future need. This exemption was primarily based upon principles of equity rather than a perceived need. Future need will depend upon current perceptions of equity and the balancing of the need for additional revenues.

G. Alternative methods. An income tax credit for sales tax paid on cigarettes alone is probably not a publicly acceptable alternative. One method of reducing the burden of a sales tax on cigarettes would be to reduce the amount of the cigarette tax.

H. Recommendations. Tem members of the Committee (Senators Teague and Wood, Representatives Post, Kane, Kilcoyne, Hayden, Higgins, Masterman, Ingraham and Day) recommend repeal of this provision. They also recommend that repeal be coupled with an equivalent increase in the amount of revenue going to state-municipal revenue sharing fund. Senator Emerson and Representative Twitchell recommend no change in this exemption.

11. Sales of liquor. Sales of spirituous or vinous liquors sold in stores operated by the State Liquor Commission.

A. Purpose. This exemption was enacted with the original bill in 1951. The explanation was given in debate on the floor of the House that liquor should be exempt from the sales tax because it was already subject to other taxation.

B. Groups or individuals assisted by the exemption. Consumers of liquor benefit from not being required to pay a sales tax. If the exemption encourages increased consumption of liquor, those who sell to the State Liquor Commission for resale in state stores can be said to benefit.

C. Cost of retaining this provision. $2,100,000.

D. Economic impact. Imposition of a sales tax on liquor could potentially decrease consumption, although demand for liquor woúlld probably not be as closely related to price as the demand for some other products. The increased price of liquor could encourage persons, for whom it is convenient, to purchase liquor in other states.

E. Past effectiveness. Because the original purpose of the exemption was to avoid additional burdens on a product already subject to taxation, the exemption has certainly accomplished that purpose.

F. Future need. This bill was primarily based upon principles of equity rather than a perceived need. Future need for the exemption will depend upon current perceptions of equity and the balancing of the need for additional revenues.

G. Alternative methods. An income tax credit for sales tax paid on liquor alone is probably not a publicly acceptable alternative. One method of reducing the burden of a sales tax on liquor would be to reduce the amount of the liquor tax.

H. Recommendations. Three members of the Committee (Senator Teague and Representatives Day and Masterman) recommend repeal of this exemption. They also recommend that the repeal be coupled with an equivalent increase in the amount of revenue going to the state-municipal revenue sharing fund. Representative Brown abstains. The remainder of the Committee recommends no change.

12. "Containers. Sales of returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling."

A. Purpose. This exemption was enacted without debate in 1951 as part of the original Sales Tax Law. The purpose was undoubtedly to relieve the administrative difficulties and the burden of multiple taxation of containers when sold and returned many times. Although, legally, the containers may have been sold, the transaction in most cases was seen as more of a loan.

B. Groups or individuals assisted by the exemption. Purchasers of products in returnable containers are the primary beneficiaries. Store owners and home delivery companies benefit to the extent that they did not have to calculate and collect tax on containers or to pay tax on containers returned.

C. Cost of retaining this provision. $1,000,000.

D. Economic impact. Removal of this exemption would increase the cost of beverages and the difficulty of small store owners in coping with the returnable container law. It could result, where convenient, in some additional persons purchasing beverages in New Hampshire to avoid the tax.

E. Past effectiveness. The exemption has been effective in accomplishing its purpose. During the period when returnable containers declined in usage, the exemption may not have had much use, but with the enactment of the returnable container law which became effective in 1978, the value of the exemption has been restored.

F. Future need. It does not appear that the need for this exemption will change.

G. Alternative methods. There does not appear to be any viable alternative method of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

13. "Bibles. Sales of the Bible and also other books and literature and utensils of worship used in and by established churches for religious instruction and prayer."

A. Purpose. This exemption was enacted in 1951 as part of the original Sales Tax Law without substantive debate. The goal of the Legislature apparently was to ensure that religious organizations which have traditionally been exempt from all kinds of taxation would also be exempt from Sales Tax on religiously related purchases.

B. Groups or individuals assisted by the exemption. There are 2393 religious organizations which are assisted by this exemption. It is unclear whether those who benefit indirectly are persons who donate to the religious organization or those who benefit from their charitable activities.

C. Cost of retaining this provision. $560,000.

D. Economic impact. To the extent this exemption facilitates charitable activities, state and local government is relieved of some welfare responsibilities.

E. Past effectiveness. The Taxation Committee assumes that this exemption has achieved its purpose, but there is really no way to verify that assumption.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. The alternative to this provision would be for the State and local governments to assume responsibility for increased welfare costs that would result of diminished religious spending capability. There are no other foreseeable alternative which would not entangle the State in the affairs of religious organizations to an undesirable, if not unconstitutional, extent.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

14. "Publications. Sales of any publication regularly issued at average intervals not exceeding 3 months."

A. Purpose. This exemption was enacted without comment in 1951 as part of the original Sales Tax Law. The purpose of the exemption was probably to ensure that the enactment of a sales tax did not interfere with the free flow of information. There may also have been some concern for the administrative difficulty of calculating and collecting a sales tax from the newsstand operator, the home deliverer of periodicals, and the subscription sale.

B. Groups or individuals assisted by the exemption. Persons who buy and sell periodicals benefit from this exemption. It is difficult to determine the exact number of persons assisted, but nearly everyone reads or buys a newspaper or magazine occasionally.

C. Cost of retaining this provision. $1,800,000.

D. Economic impact. If this exemption were removed, publications issued at average intervals not exceeding three months would increase in cost. Some purchases might be curtailed or shifted to subscriptions through out-of-state dealers. Computation of the price of home delivery sales would be more complicated.

E. Past effectiveness. This exemption has probably been effective in accomplishing its purpose.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. Except for a general income tax credit for sales tax paid, there is no readily apparent alternative to this exemption.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

16. "Hospitals, research centers, churches and schools. Sales to incorporated hospitals, incorporated nonprofit nursing homes licensed by the Department of Human Services, incorporated nonprofit home health care agencies certified under Title XVIII of the Social Security Act of 1965 as amended, incorporated nonprofit rural community health centers engaged in the delivery of comprehensive primary health care, institutions incorporated as nonprofit corporations for the sole purpose of conducting medical research or for the purpose of establishing and maintaining laboratories for scientific study and investigation in the field of biology or ecology or operating educational television or radio stations, schools and regularly organized churches or houses of religious worship, excepting sales, storage or use in activities which are mainly commercial enterprises. 'Schools' means incorporated nonstock educational institutions, including institutions empowered to confer educational, literary or academic degrees, which have a regular faculty, curriculum and organized body of pupils or students in attendance throughout the usual school year, which keep and furnish to students and others records required and accepted for entrance to schools of secondary, collegiate or graduate rank, no part of the net earnings of which inures to the benefit of any individual."

A. Purpose. This provision contains exemptions for several different categories of potential taxpayers. The exemptions for hospitals, nursing homes, home health centers, research centers and nonprofit rural community health centers were enacted to hold down the cost of medical care and to allow state and federal money spent on health care to be used for direct patient care costs rather than to pay state sales tax. The exemption for churches was enacted to avoid state taxation of religion and to facilitate the charitable work of such institutions. The exemption for schools was enacted to put them on an equal footing with public schools which provide the same benefit for the citizens of the state by educating children. The exemption for educational television and radio stations was enacted to provide the same tax exempt status as the schools which sponsor the stations.

B. Groups or individuals assisted by this exemption. Persons benefitting include persons obtaining medical care, parents of children in private schools, patrons of educational radio and television stations, persons who benefit from church programs, and persons who benefit from the activities of medical, biological or ecological research centers.

C. Cost of retaining this provision. The cost of retaining this provision is estimated by the Bureau of Taxation to be $4,900,000 for hospitals, $72,000 for schools, $560,000 for churches, $23,000 for nursing homes, $11,000 for medical research centers, $2,200 for biological and ecological research centers, $10,000 for home health centers, $11,000 for educational radio and TV stations and $30,000 for rural health centers.

D. Economic impact. Aside from the individual institutions which benefit from the exemption, it is unlikely that this provision either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purposes.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. Additional state subsidies could be provided to educational television and radio stations, research labs and for persons receiving government assistance to pay for their health care. An income tax credit could be granted to persons whose children attend private schools. There does not appear to be any alternative to a sales tax exemption for churches.

H. Recommedations. The Taxation Committee does not recommend any change in this exemption at the present time.

17. "Camps. Rental charged for living quarters, sleeping or housekeeping accommodations at camps entitled to exemption from property tax under section 652, subsection 1."

A. Purpose. The purpose of this exemption was to provide a sales tax exemption to camps which have a property tax exemption as benevolent and charitable organizations. The exemption was passed at the same time as an extension of the sales tax to cover rentals of less than 28 days. The Maine Supreme Judicial Court in 1960 in Camp Walden v. Johnson, 156 Me. 160 decided that the tax on rentals was not intended to cover charges for living accommodations at childrens' camps because no accommodation was made for itemizing such expenses from a lump sum fee for all services provided. Therefore, it is unlikely that these services would be taxed even in the absence of this exemption.

B. Groups or individuals assisted by this exemption. Persons who benefit are those who pay for living quarters, sleeping or housekeeping accommodations at qualified camps.

C. Cost of retaining this provision. The Bureau of Taxation estimates that this exemption does not result in any tax loss because services would not be taxable even in the absence of the exemption.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. The exemption has been effective in clarifying the taxable status of these services.

F. Future need. The need for this exemption is questionable if services would still be exempt without it.

G. Alternative methods. There are no apparent alternative methods of accomplishing the purpose of this exemption.

H. <u>Recommendation</u>. Although the Bureau of Taxation believes that these sales would be exempt even in the absence of this exemption, the Committee recommends no change because it does not wish to create the impression that it wishes to change the status quo.

18. "Certain institutions. Rental charged for living or sleeping quarters in an institution licensed by the State for the hospitalization or nursing care of human beings."

A. Purpose. The purpose of this exemption was to reduce the cost of necessary hospital or nursing home care.

B. Groups or individuals assisted by this exemption: Persons benefitting are those who pay for such services.

C. Cost of retaining this provision. The Bureau estimates that this exemption does not cost anything because of the reasoning of the Supreme Judicial Court in the Camp Walden case that taxation of rental charges does not apply to charges which are incidental to a more comprehensive service provided and there was no apparent legislative intent to tax those services.

D. Economic impact. It is unlikely that this provision either encourages or discourages economic activity.

E. Past effectiveness. The exemption has been effective in clarifying the tax status of these services.

F. Future need. The need for this exemption is questionable if services would still be tax exempt without it.

G. Alternative methods. There are no apparent alternative methods of accomplishing the purpose of this exemption.

H. Recommendation. Although the Bureau of Taxation believes that these sales would be exempt even in the absence of this exemption, the Committee recommends no change because it does not wish to create the impression that it wishes to change the status quo.

18-A. "Other institutions. Sales to incorporated private nonprofit residential child caring institutions which are licensed by the Department of Health and Welfare as child caring institutions."

A. Purpose. The purpose of this exemption was to provide that all funds received by such institutions could be used to pay for the costs of child care services rather than to pay a state sales tax.

B. Groups or individuals affected by this exemption. There are 17 institutions in Maine which are eligible under this exemption.

C. Cost of retaining this provision. $36,000.

D. Economic activity. It is unlikely that this provision either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future Need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods to accomplish the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

19. "Schools. Rental charged for living quarters, sleeping or housekeeping accommodations to any student necessitated by attendance at a school as defined in subsection 16."

A. Purpose. This exemption was enacted to make it clear that this type of rental was not the kind intended to be taxed under the provision which taxes rental of living quarters in any hotel, rooming house, tourist or trailer camps.

B. Groups or individuals assisted by this exemption. Persons assisted are those who pay for students who live away from home attending private schools.

C. Cost of retaining this provision. The Bureau of Taxation places no cost on this exemption. Even if such rentals are covered by the provision taxing certain rentals, it is likely that they would still be exempt under subsection 20 of section 1760 which exempts rentals in excess of 28 days.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity. It does lessen the cost of private schooling but it is unlikely that this exemption alone encourages increased attendance.

E. Past effectiveness. This provision has been effective in accomplishing its purpose.

F. Future need. The need for this exemption is questionable if such rentals would be exempt anyway under another provision. However, the exemption does no harm and repeal might give the impression that the legislature intended such rentals to be taxed.

G. Alternative methods. There are no alternative methods of accomplishing the purposes of this exemption.

H. Recommendation. Although the Bureau of Taxation believes that these sales would be exempt even in the absence of this exemption, the Committee recommends no change because it does not wish to create the impression that it wishes to change the status quo.

20. "Continuous residence; refunds and credits. Rental charged to any person who resides continuously for 28 days at any one hotel, rooming house, tourist or trailer camp. Tax paid by such person to the retailer under section 1812 during the initial 28-day period shall be refunded by the retailer. Such tax reported and paid to the State by the retailer may be taken as a credit by the retailer on the report filed by him covering the month in which refund was made to such tenant."

A. Purpose. The purpose of this exemption was to exclude from taxation those rentals which are in the nature of permanent living accommodations.

B. Groups or individuals assisted by this exemption. Persons assisted are those who make their home for periods of at least 28 days in hotels, rooming houses, tourist or trailer camps. The Bureau of Taxation believes that the proper interpretation of the broad definitions of hotels, rooming houses, tourist camps and trailer camps would subject all rentals of housing accommodations to taxation in the absence of exemption. However, the legislation enacting the provision to tax certain rentals in 1959 was titled "AN ACT to Tax Transient Rentals". It taxed rentals shorter than 90 days and included a specific exclusion of apartment houses. In 1961, the exclusion for apartment houses was dropped when the time limitation was lowered to 28 days. It would not appear that the legislature intended to tax principal dwelling places regardless of the length of time they were occupied. This language of the current law is ambiguous and could stand amendment to clarify the status of rental property. Such amendment could be accomplished without affecting tax revenues.

C. Cost of retaining this provision. Because the Bureau of Taxation interprets this exemption to exclude rentals of all living quarters, including principal dwelling places, they estimate the cost of the exemption to be $14,200,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity. It does improve the progressivity of the tax by exemption of expenses in the nature of necessary permanent living expenses.

E. Past effectiveness. Although there is ambiguity in the extent of the exemption, it has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternatives to accomplishing the purpose of this exemption.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

21. "Automobiles used in driver education program. Sales to automobile dealers, registered under section 1754, of automobiles for the purpose of equipping the same with dual controls and loaning or leasing the same to public or private secondary schools without consideration or for a consideration of not more than $1 a year, and used exculsively by such schools in driver education programs."

A. Purpose. The exemption was enacted in 1953 without legislative debate. The most probable purpose of the exemption is to encourage automobile dealers to contribute cars for driver education programs. The cars would not be subject to taxation if purchased by the schools which use them. Dealers should not be required to pay a tax to the State when they are providing a public benefit by donating cars.

B. Groups or individuals assisted by the exemption. The Bureau of Taxation reports that 259 automobile dealers in the State benefit from this exemption. To the extent that the exemption encourages dealers to donate automobiles to driver education programs, students, schools, and taxpayers benefit.

C. Cost of retaining this provision. $66,000.

D. Economic Impact. If this exemption were removed, theoretically fewer automobiles would be donated to driver education programs. Programs would be eliminated or schools would have to purchase cars, thereby increasing taxes or tuition.

E. Past effectiveness. It is very difficult to estimate the degree to which this exemption has encouraged the donation of cars to driver education programs. Dealers receive other benefits from donating cars (advertising, good will); the tax would be deductible, if paid. However, it is likely that if this exemption were removed, some dealers might decide not to donate or at least might make a charge to the school to cover the amount of the tax.

F. Future Need. The need for this exemption does not appear to have changed.

G. Alternative methods. One alternative to this exemption would be for the State to provide a subsidy to schools which must pay to purchase cars for driver education programs. Since dealers would probably charge at least as much as the State subsidy this alternative would almost certainly be more expensive than the cost of the current exemption.

H. Recommendations. The Taxation Committee does not recommend any change in the exemption at the present time.

22. "Automobiles to amputee veterans. Sales of automobiles to veterans who are granted free registration of such vehicles by the Secretary of State under Title 29, section 251. Certificates of exemption or refunds of taxes paid shall be granted under such rules or regulations as the Tax Assessor may prescribe."

A. Purpose. The purpose of this exemption is to provide a benefit to those veterans who have lost the use of limbs in the armed services.

B. Groups or individuals assisted by this exemption. The Bureau of Taxation estimates that 40 veterans will take advantage of this exemption this year.

C. Cost of retaining this provision. $12,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods for accomplishing this purpose.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the prsent time.

23. "Motor vehicles. Motor vehicles purchased by a non-resident and intended to be driven or transported outside the State immediately upon delivery by the seller. If such motor vehicle is registered for use in Maine within 6 months of the date of purchase, the person seeking registration shall be liable for use tax on the basis of the original price."

A. Purpose. The Commerce Clause of the United States Constitution has been interpreted to prohibit Maine from imposing a sales tax on items sold in Maine to a non-resident and delivered outside the state. Non-residents purchasing such articles in Maine could avoid the tax by accepting delivery out-of-state. In order to avoid this otherwise unnecessary delivery requirement, sales of such articles to non-residents have been exempted.

B. Groups or individuals assisted by this exemption. Groups and individuals benefitted are non-residents who do not have to arrange for out-of-state delivery and Maine dealers who may experience increased sales to non-residents as a result of the exemption.

C. Cost of retaining this provision. The Bureau of Taxation reports minimal cost because it believes that the tax would be avoided by accepting delivery out-of-state.

D. Economic impact. Due to the relatively large amount of the sales tax on a motor vehicle, it is quite likely that this exemption encourages some increased non-resident purchases in Maine.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It is unlikely that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods of accomplishing the purpose of this exemption.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

23-A. "Truck bodies and trailers. Truck bodies, semi-trailers and trailers, manufactured in Maine, except camper bodies and trailers, purchased by a nonresident who intends to remove them immediately from the State upon delivery by the seller. If the truck body, semi-trailer or trailer is returned to Maine for an otherwise taxable use in Maine within 6 months of the date of purchase, the purchaser shall be liable for use tax, based on the original purchase price.

A. Purpose. Same as subsection 23.

B. Groups or individuals assisted by this exemption. Same as subsection 23.

C. Cost of retaining this provision. $22,000.

D. Economic impact. Same as subsection 23.

E. Past effectiveness. Sames as subsection 23.

F. Future need. Same as subsection 23.

G. Alternative methods. Same as subsection 23.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

24. "Funeral services. Sales of funeral services."

A. Purpose. This exemption was enacted in 1955 without legislative debate. The purpose was probably to relieve the burden for families paying expensive funeral bills. However, it is unclear whether the impetus for the bill came from consumers or the funeral industry.

B. Groups or individuals assisted by the exemption. Families paying funeral expenses are benefitted. To the extent that the exemption permits the purchase of more expensive services, funeral directors benefits. 10,774 persons died in 1980.

C. Cost of retaining this provision. $675,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. The exemption appears to have accomplished its purpose.

F. Future need. It does not appear that the need for this exemption will change in the foreseeable future.

G. Alternative methods. If funeral services were subject to a sales tax, that amount would be deductible from any inheritance tax due. However, those persons least able to pay the sales tax would be those inheriting small estates which would not be liable for an inheritance tax in any event. An income tax credit would have the disadvantage that many lower income persons would not file income tax returns.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

25. "Boats sold to nonresidents. Sales in this State to nonresidents of yachts and other pleasure boats and commercial vessels and boats actually registered for numbering, enrolled or documented under federal or foreign law in the appropriate customhouses or registry offices for location thereof or home ports therefor outside the State, when such craft are either delivered outside the State or delivered in the State to be sailed or transported outside the State immediately upon delivery by the seller; and any sales to nonresidents, under contracts for the construction of any such craft to be so delivered, or materials to be incorporated therein; and any sales to nonresidents for the repair, alteration, refitting, reconstruction, overhaul or restoration of any such craft to be so delivered, of materials to be incorporated therein. If a craft so registered is registered for a location or home port in the State, within 6 months of the date of purchase, the person seeking registration shall be liable for the use tax on the basis of the original price."

A. Purpose. The provision of this subsection which exempts sales to nonresidents was enacted for substantially the same reason as subsection 23. The provisions exempting construction and repair were enacted in the 60's to assisted the boat building and repair business in the state by enabling them to provide such services to nonresidents without charging sales tax.

B. Groups or individuals assisted by this exemption. Groups benefitting are non-residents purchasing or repairing boats in Maine and businesses which experience increased sales or repair contracts as a result of this exemption.

C. Cost of retaining this provision. The Bureau of Taxation estimates the cost of the exemption for sales to be minimal because the tax could be avoided by making delivery out-of-state. The cost of the exemption for construction materials in $34,000; for repairs, $70,000.

D. Economic impact. It is quite likely that this exemption does result in some increased Maine boat business for non-residents.

E. Past effectiveness. This exemption has probably been effective in accomplishing its purpose.

F. Future need. It is unlikely that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

26. "Volunteer ambulance corps and fire departments. Sales to incorporated volunteer fire departments and to incorporated volunteer nonprofit ambulance corps."

A. Purpose. The purpose of this exemption is to allow a sales tax for volunteer fire and rescue organizations which basically serve a public purpose and which receive most if not all of their funding from local government sources.

B. Groups or individuals assisted by this exemption. According to the Bureau of Taxation there are 162 organizations which benefit from this exemption.

C. Cost of retaining this provision. $89,000

D. Economic impact. The impact of this exemption is that the cost of a sales tax does not have to be passed along to local taxpayers.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

27. "Aircraft purchased by a nonresident. Aircraft purchased by a nonresident and intended to be driven or transported outside the State immediately upon delivery by the seller. If any such craft are registered for use in Maine within 6 months of the date of purchase, the person seeking registration shall be liable for use tax on the basis of the original purchase price."

A. Purpose. Same as subsection 23.

B. Groups or individuals assisted by this exemption. Same as subsection 23.

C. Cost of retaining this provision. Same as subsection 23.

D. Economic impact. Same as subsection 23.

E. Past effectiveness. Same as subsection 23.

F. Future need. Same as subsection 23.

G. Alternative methods. Same as subsection 23.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

28. "Community mental health facilities and community mental retardation facilities. Sales to mental health facilities and mental retardation facilities which receive support under the Federal Community Mental Health Centers Act, as amended, or its successors, or from the Department of Mental Health and Corrections pursuant to Title 34, chapters 183 or 184-C."

A. Purpose. The reason for this exemption is that these facilities are substantially identical to other health care facilities such as hospitals, nursing homes and clinics which are exempt under other provisions of section 1760. In addition, much of the care provided at these facilities is paid for through government programs and all the money available should be used to provide services, not to pay taxes.

B. Groups or individuals assisted by this exemption. The Bureau of Taxation reports that there are 60 facilities that take advantage of this exemption.

C. Cost of retaining this provision. $46,000

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There do not appear to be any alternative methods for accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

29. "Water pollution control facilities. Sales of any water pollution control facility, certified as such by the Environmental Improvement Commission, and any part or accessories thereof, or any materials for the construction, repair or maintenance of such facility.

As used in this subsection:

A. "Disposal system" means any system used primarily for disposing of or isolating industrial or other waste and includes thickeners, incinerators, pipelines or conduits, pumping stations, force mains and all other constructions, devices, appurtenances and facilities used for collecting or conducting water borne industrial or other waste to a point of disposal, treatment or isolation, except that which is necessary to the manufacture of products.

B. "Facility" means any disposal system or any treatment works, appliance, equipment, machinery, installation or structures installed, acquired or placed in operation primarily for the purpose of reducing controlling or eliminating water pollution caused by industrial or other waste, except septic tanks and the pipelines and leach fields connected or appurtenant thereto.

C. "Industrial waste" means any liquid, gaseous or solid waste substance capable of polluting the waters of the State and resulting from any process, or the development of any process, of industry or manufacture.

D. "Treatment works" means any plant, pumping station, reservoir or other works used primarily for the purpose of treating, stabilizing, isolating or holding industrial or other wastes."

A. Purpose. This exemption was enacted in 1969 to ease the burden placed on industrial and agricultural facilities which were required to meet stricter water quality standards.

B. Groups or individuals assisted by this exemption. Groups benefitting are those purchasing qualified water pollution control facilities.

C. Cost of retaining this provision. $116,000.

D. Economic impact. This exemption may encourage the installation of such facilities.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There does not appear to be any alternative method of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

30. "Air pollution control facilities. Sale of any air pollution control facility, certified as such by the Environmental Improvement Commission, and any part or accessories thereof, or any materials for the construction, repair or maintenance thereof.

As used in this subsection:

A. "Facility" means any appliance, equipment, machinery, installation or structures installed, acquired or placed in operation primarily for the purpose of reducing, controlling, eliminating or disposing of industrial or other air pollutants.

Facilities such as air conditioners, dust collectors, fans and similar facilities designed, constructed or installed solely for the benefit of the person for whom installed or the personnel of such person, and facilities designed or installed for the reduction or control of automobile exhaust emissions shall not be deemed air pollution control facilities for purposes of this subsection."

A. Purpose. This exemption was enacted to ease the burden placed on industrial facilities which were required to meet stricter water quality standards.

B. Groups or individuals assisted by this exemption. Groups benefitting are those purchasing qualified air pollution facilities.

C. Cost of retaining this provision. $34,000.

D. Economic impact. This exemption may encourage the installation of such facilities.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It is unlikely that the need for this exemption will change in the immediate future.

G. Alternative methods. There does not appear to be any alternative method of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

31. "New machinery and equipment. Sales of new machinery and equipment for use by the purchaser directly and primarily in the production of tangible personal property, which property is intended to be sold or leased ultimately for final use or consumption."

A. Purpose. This exemption was enacted as part of a comprehensive revision of business taxation laws which included elimination of the inventory tax and an increase in the corporate income tax rate. The purpose of the package was to create new jobs and encourage businesses to locate or expand within Maine.

B. Groups or individuals assisted by the exemption. Businesses purchasing qualified equipment benefit from this exemption. The Bureau of Taxation lists at least manufacturers.

C. Cost of retaining this provision. $24,000,000.

D. Economic impact. It is difficult to determine whether this sales tax exemption has been the primary impetus, for business expansion or whether expansion would have proceeded in the absence of this exemption. The high cost of the exemption indicates that considerable exempt purchases have been made. Therefore, more money has been available for expansion and it can be assumed that some expansion would not have been made if the money freed up by this exemption had not been available.

E. Past effectiveness. See discussion under Economic impact.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. An alternative to this exemption would be an income tax credit for purchases of new machinery and equipment, however, an income tax credit would not provide relief at the actual time of purchase.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

32. "<u>New machinery and equipment for research</u>. Sales of new machinery and equipment for use by the purchaser directly and exclusively in research and development in the experimental and laboratory sense. Such research and development shall not be deemed to include the ordinary testing or inspecting of materials or products for quality control, efficiency surveys, management studies, consumer surveys, advertising, promotions or research in connection with literary, historical or similar projects."

The information listed under subsection 31 also includes this exemption.

33. Diabetic supplies. All equipment and supplies, whether medical or otherwise, used in the diagnosis or treatment of diabetes;

A. Purpose. This exemption was enacted in 1973. The small amount of debate described the purpose of the exemption as to help elderly and low income persons who have high medical expenses because they are diabetic. Many supplies needed by diabetics do not require a prescription and, therefore, are not otherwise exempt.

B. Groups or individuals assisted by the exemption. Persons who benefit are diabetics.

C. Cost of retaining this provision. $200,000

D. Economic impact. This exemption neither encourages nor discourages economic activity .

E. Past Effectiveness. The exemption has been effective in accomplishing its purpose, but to the extent intended to help low income persons, it has been overbroad in including all diabetics.

F. Future need. The need for this exemption does not appear to have changed.

G. Alternative methods. Alternative methods of accomplishing the purpose of this exemption include an income tax credit. Increased coverage of items used by diabetic persons by medical assistance programs could direct the benefits at persons most in need of financial assistance.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

34. "Coin-operated vending machines. Sales of products for internal human consumption when sold through coin-operated vending machines by a person more than 50% of whose gross receipts from the retail sale of tangible personal property are derived from sales through vending machines."

A. Purpose. This exemption was originally enacted in 1973 because of the administrative difficulties involved in collecting small amounts of sales tax from vending machines which do not accept pennies. The original exemption applied to all vending machine operators and products selling for 15¢ or less. In 1977, the law was amended to provide that vending machine operators could pay sales tax on the "wholesale" purchase price if their gross receipts from vending machine sales exceed 50% of total gross reeipts. In 1981, this law was amended to provide for "wholesale" level taxation of only products for internal human consumption.

B. Groups or individuals assisted by this exemption. The primary beneficiaries of this exemption are retailers with more than 50% of their gross receipts from vending machine sales. This provision entitles the retailer to submit sales tax on the amount charged to him rather than the amount he charges through the machine.

C. Cost of retaining this provision. $500,000.

D. Economic impact. Because this exemption benefits vending machine retailers, it may increase the availability of vending machines. It may also reduce the price of the product sold through the machine. However, there is no information to support or refute either supposition.

E. Past effectiveness. When the special treatment for vending machines was originally passed in 1973, it was limited to items selling for 15¢ or less. At that time that limitation included most products sold through machines. Since that time, prices have increased rapidly. It may have become administratively less difficult to collect a sales tax as a result of increased prices. While this provision currently benefits vending machine operators with more than 50% of their gross receipts from vending machine sales, it has eliminated any benefit for those with a lower percentage of receipts through vending machine sales.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There are no apparent alternatives to accomplish the purpose of this provision.

H. Recommendations. The Taxation Committee does not recommend any change in this exemption at the present time.

35. "Seeing eye dogs. Sales of goods and services which are essential for the care and maintenance of seeing eye dogs which are used to aid any blind person."

A. Purpose. This exemption was enacted in 1975 without legislative debate. The purpose of the exemption was to provide a benefit to blind persons who require seeing eye dogs to assist them with mobility.

B. Groups or individuals assisted by this exemption. Persons assisted are blind persons owning seeing eye dogs. The Eye Care Division of the Bureau of Rehabilitation estimates that fewer than 25 persons in Maine use seeing eye dogs.

C. Cost of retaining this provision. The Bureau of Taxation estimates the cost of this provision as minimal, certainly less than $1000.

D. Economic impact. It is unlikely that this provision either encourages or discourages economic activity.

E. Past effectiveness. This exemption has accomplished its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. An alternative method would be to provide a direct grant to persons owning seeing eye dogs.

4. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

36. "Spirituous and vinous liquors. Sales of spirituous and vinous liquors containing more than 14% alcohol by volume offered for sale in special agency stores as defined in Title 28, section 153."

A. Purpose. This exemption was enacted in 1975 without legislative debate. The purpose undoubtedly was to place agency stores on an equal basis with state liquor stores which have always been exempt because liquor is taxed under other laws.

B. Groups or individuals assisted by the exemption. Persons who benefit include those purchasing the specified alcoholic beverages. Distributors benefit to the extent the reduced price encourages increased sales.

C. Cost of retaining this provision. $500,000.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There are no apparent alternative methods to accomplish this purpose.

H. Recommendations. Three members of the Committee (Senator Teague and Representatives Masterman and Day) recommend repeal of this exemption. They also recommend that repeal of this exemption be coupled with an equivalent increase in the amount of revenue going to the state-municipal revenue sharing fund. Representative Brown abstains. The remainder of the Committee recommends no change.

37. "Regional planning commissions and councils of government. Sales to regional planning commissions and councils of government, which are established in accordance with Title 30."

A. Purpose. This exemption was enacted in 1977 to institutionalize the tax exempt status of regional planning commissions and councils of government. The Bureau of Taxation has always considered such organizations exempt as agencies of government.

B. Groups or individuals assisted by the exemption. Groups assisted are regional planning commissions and councils of government. There are 10 such agencies in Maine.

C. Cost of retaining this provision. $0 (since they would be considered exempt anyway.

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. The exemption appears to be redundant.

F. Future need. Because such organizations are otherwise exempt, the future need for this exemption is questionable. The primary impetus for specific tax exempt status appears to be the Northern Maine Regional Planning Commission which believes that such exemption assist them in obtaining favorable interest rates when borrowing money. The Committee has been unable to determine the basis for this belief.

G. Alternative methods. These organizations are already exempt under subsection 2 of 36 MRSA §1760.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

38. "Solar energy equipment. Sales of any solar energy equipment certified as such by the Office of Energy Resources. In order to obtain certification, a person shall submit to the Office of Energy Resources or its legal successor an application for a tax rebate which shall state at a minimum the energy equipment purchased, its manufacturer, its cost, the seller from whom the purchase was made and the use which the purchaser shall make of the equipment.

The State Tax Assessor shall refund sales or use tax paid on solar energy equipment upon notice of certification by the Office of Energy Resources. This subsection shall remain in effect until January 1, 1983."

A. Purpose. This exemption, technically a refund, was enacted in 1977 without legislative debate. The purpose of the exemption was to encourage the use of solar energy equipment by providing an exemption from sales tax which would reduce the cost.

B. Groups or individuals assisted by this exemption. The Bureau of Taxation estimates that in 1981, 170 persons will take advantage of this provision.

C. Cost of retaining this provision. $20,000

D. Economic impact. This exemption encourages the use of solar energy equipment. It may contribute to economic well being of solar equipment dealers. It encourages the use of energy sources other than non-renewable fossil fuels.

E. Past effectiveness. This exemption combined with other tax incentives has contributed to increased useage of solar energy.

F. Future need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. An alternative method for accomplishing the purpose of this exemption would be to provide direct assistance to pruchasers of solar energy or to provide development assistance to solar contractors which would enable them to reduce the price of solar energy equipment.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

39. "Residential water. Sales of water purchased for use in homes, mobile homes, boarding homes and apartment houses and other buildings designed for both human habitation and sleeping, with the exception of hotels and motels."

A. Purpose. This exemption was enacted in 1977 without legislative debate. The purpose was undoubtly to continue the policy of exempting necessities to decrease the burden of the tax on low income persons.

B. Groups or individuals assisted by this provision. The Chief Engineer of the Water and Gas Division of the Public Utilities Commission estimates that 191,000 households purchase water from regulated water companies.

C. Cost of retaining this provision. $650,000

D. Economic impact. It is unlikely that this exemption either encourages or discourages economic activity.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It is unlikely that the need for this exemption will change in the immediate future.

G. Alternative methods. One alternative method would be an income tax credit for sales tax paid; however, many low income persons would not file income tax returns.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

40. "Mobile and modular homes. Sales of used mobile or modular homes and all costs included in the sale price other than cost of materials, except that that amount shall not be in excess of 50% of the sale price of a new mobile or modular home."

A. Purpose. This exemption was enacted in 1977 without legislative debate. The purpose was to provide equity between manufactured housing and traditional housing where sales tax is not paid on costs other than materials.

B. Groups or individuals assisted by the exemption. The Manufactured Housing Association estimates that persons purchase homes subject to this exemption each year.

C. Cost of retaining this provision. $775,000.

D. Economic impact. This exemption may encourage a few additional persons to purchase manufactured housing or slightly more expensive manufactured housing than would be the case in the absence of this exemption.

E. Past effectiveness. This exemption has been effective in accomplishing its purpose.

F. Future need. It is unlikely that the need for this exemption will change in the immediate future.

G. Alternative methods. There are no apparent alternative methods of accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

"<u>41. Certain instrumentalities of interstate or foreign commerce.</u> The sale of a vehicle, railroad rolling stock, aircraft or watercraft which is placed in use by the purchaser as an instrumentality of interstate or foreign commerce within 10 days after that sale and which is used by the purchaser not less than 80% of the time for the next 2 years as an instrumentality of interstate or foreign commerce. For purposes of this subsection, property is 'placed in use as an instrumentality of interstate or foreign commerce' by its carrying of, or providing the motive power for the carrying of, a bona fide payload in interstate or foreign commerce, or by being dispatched to a specific location at which it will be loaded upon arrival with, or will be used as motive power for the carrying of, a payload in interstate or foreign commerce. For purposes of this subsection, 'bona fide payload' means a cargo of persons or property transported by a contract or common carrier for compensation which exceeds the direct cost of carrying that cargo or pursuant to a legal obligation to provide service as a public utility or a cargo of property transported in the reasonable conduct of the purchaser's own nontransportation business in interstate commerce."

<u>A. Purpose.</u> The purpose of this exemption was to avoid a situation where Maine dealers were making deliveries of equipment outside of the State in order to maintain competitiveness and avoid having to charge a sales tax.

<u>B. Groups or individuals assisted by this exemption.</u> Persons purchasing this equipment as well as Maine dealers

selling this equipment benefit from not having to make delivery outside of the State to avoid sales tax.

C. Cost of retaining this provision. $0 because the Bureau of Taxation believes that everyone was able to avoid paying this tax in the past by arranging of out-of-state delivery.

D. Economic impact. This exemption probably encourages some increased sales of eligible products by Maine dealers. It also avoids unnecessary transportation charges required when delivery was made out-of-state.

E. Past effectiveness. The exemption has been effective in accomplishing its purpose.

F. Future Need. It does not appear that the need for this exemption will change in the immediate future.

G. Alternative methods. There does not appear to be any alternative to accomplishing the purpose of this exemption.

H. Recommendation. The Taxation Committee does not recommend any change in this exemption at the present time.

VI. Conclusion

Although there was some sympathy among some members of the Taxation Committee for major reform of the sales tax by elimination of most of the exemptions accompanied by a reduction of the overall tax rate, it was generally not believed that the time was right for such a comprehensive change.

Those changes which are recommended are not intended to increase the general fund revenue of the state of Maine. The repeal of the exemption for motor fuels would add approximately $36,000,000 as part of a more comprehensive program to provide sufficient funding to the Department of Transportation.

The recommendations to repeal the exemptions for cigarettes and liquor are intended not to bring additional money into the state but to provide sufficient revenue to increase the amount of state-municipal revenue sharing to provide some relief from the property tax on the local level.

VII. Legislation

AN ACT to Remove the Sales Tax Exemption on Motor Fuels.

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

36 MRSA §1760, sub-§8 is repealed.

STATEMENT OF FACT

This bill repeals the sales tax exemption on motor fuels.

AN ACT to Remove the Sales Tax Exemption on Alcohol and to Increase the Amount of Municipal Revenue Sharing.

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

Sec. 1. 30 MRSA §5055, sub-§4, 1st paragraph is repealed and the following enacted in its place.

5. Treasurer of State. An amount equal to 4 1/2% of the receipts from the taxes imposed under Title 36, Parts 3 and 8, and credited to the General Fund, plus an amount equal to $237,000 of the receipts from the tax imposed under Title 36, Part 3, shall be transferred by the Treasurer of State to the first day of each month beginning September 1, 1983.

Sec. 1. 36 MRSA §1760, sub-§11 is repealed.

Sec. 2. 36 MRSA §1760, sub-§36 is repealed.

STATEMENT OF FACT

This bill removes the sales tax exemptions for liquor sold at state and agency stores. The revenue gained through repeal of the exemption is used to increase the amount of money going to municipalities through the Local Government Fund. An increase from 4% to 4 1/2% of receipts under 36 MRSA Parts 3 and 8 will increase the amount going to the Local Government Fund by approximately $2.4 million. The repeal of the sales tax exemption on liquor is estimated to generate approximately $2.6 million.

AN ACT to Remove the Sales Tax Exemption on Cigarettes and to Increase the Amount of Municipal Revenue Sharing.

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

Sec. 1. 30 MRSA §5055, sub-§4, 1st paragraph is repealed and the following enacted in its place.

5. Treasurer of State. An amount equal to 5% of the receipts from the taxes imposed under Title 36, Parts 3 and 8, and credited to the General Fund, plus an amount equal to $237,000 of the receipts from the tax imposed under Title 36, Part 3, shall be transferred by the Treasurer of State to the first day of each month beginning September 1, 1983.

Sec. 2. 36 MRSA §1752, sub-§11, 3rd sentence is amended as follows:

The term"retail sales" or "sale at retail" also means sale of products for internal human consumption and cigarettes to a person for resale through coin-operated vending machines when sold to a retailer whose gross receipts from the retail sale of tangible personal property derived through sales from vending machines are more than 50% of his gross receipts, which tax shall be paid by the retailer to the State.

Sec. 3. 36 MRSA §1760, sub-§10 is repealed.

Sec. 4. 36 MRSA §1760, sub-§34 is amended as follows:

34. Coin-operated vending machines. Sales of products for internal human consumption and cigarettes when sold through coin-operated vending machines by a person more than 50% of whose gross receipts from the retail sale of tangible personal property are derived from sales through vending machines.

STATEMENT OF FACT

This bill repeals the sales tax exemption on cigarettes and provides that sales of cigarettes through vending machines may be treated consistently with similar sales of products for human consumption. The revenue gained through repeal of the exemption is used to increase the amount of money going to municipalities through the Local Government Fund. An increase from 4% to 5% of receipts under 36 MRSA Parts 3 and 8 will increase the amount going to the Local Government Fund by approximately $4.9 million. The repeal of the sales tax exemption on cigarettes is estimated to generate approximately $5.3 million.