Report of the Joint Standing Committee on Taxation
to the Legislative Council on a Uniform State Policy
on Employment and Investment Tax Credits

April 1979

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STATE OF MAINE
ONE HUNDRED AND NINTH LEGISLATURE
COMMITTEE ON TAXATION

April 19, 1979

Senator Richard H. Pierce
Chairman
Legislative Council
State House
Augusta, Maine 04333

Dear Senator Pierce:

In accordance with the directive contained in H.P. 2351 of the 108th Legislature and the request of the Legislative Council, the Joint Standing Committee on Taxation hereby submits its report on the subject of "a uniform state policy on the use of state employment and investment tax credits." Although the Committee recommends no specific legislation, its report discusses a few measures that might be appropriate including certain bills now before the Legislature.

Sincerely,

Thomas M. Teague
Senate Chairman

Bonnie Post
House Chairwoman

enclosure
PS/sym

Study Request and Background

Pursuant to a Joint Order of the 108th Legislature directed to the Legislative Council, the Joint Standing Committee on Taxation has been asked to study and report to the Council concerning "a uniform state policy on the use of state employment and investment tax credits for all forms of businesses, large and small, including partnerships and sole proprietorships, in order to encourage a flourishing Maine economy." Although the committee does not recommend any one specific measure, the concluding sections of this report discuss various options that might be appropriate. Appendix 1 is the Study Order.

Presumably, the directive of the 108th Legislature grew out of concern that the tax benefits passed during the December, 1978 Special Session of the legislature were directed solely toward providing relief to one large investor, Pratt-Whitney, who was considering a major plant relocation in southern Maine.

Maine's tax structure as it bears on businesses is described in the following excerpt from Facts About Industrial Maine (Maine State Development Office). The Pratt-Whitney inspired tax relief is described under "Jobs and Investment Tax Credit." Not mentioned is the one-time, new jobs credit passed in 1978 which allowed a credit against income taxes of 2% of an employing units new jobs base for the tax year ending in 1978.

MAINE STATE & LOCAL TAXES

GENERAL TAX STRUCTURE

In fiscal year 1978 (ending 6/30/78), the major tax contributions to state general revenues were the sales and use tax (43.0%) and the corporate and personal income taxes (27.8%). Other state taxes are business taxes (corporate franchise, public utilities, and insurance), inheritance, succession and estate taxes, liquor taxes and special taxes (primarily on specific agricultural and fishing products).

There are no county taxes as such, although counties do make levies on municipalities and unorganized territories. The only local taxes are real and personal property taxes and excise taxes on motor vehicles, aircraft and mobile homes.

BUSINESS-RELATED TAXES

The principal state and local taxes applicable to business property and operations include:

(a) **Income Tax.** Maine's corporate income tax is based on federal taxable income. The rate (effective July 1, 1978) is 4.95% for the first $25,000 of net income and 6.93% for all net income in excess of $25,000. For the corporation doing business within and without Maine, the net income represents that portion of the total taxable income apportioned or allocated to Maine on the basis of a three-factor formula involving payroll, property and sales. Effective Jan. 1, 1976, corporations are required to file estimated tax returns to Maine.

Corporations, as well as individuals, are allowed to utilize a net operating loss deduction consistent with federal income tax treatment to the extent it affects Maine taxable income. Presently, a net operating loss is first carried back to the earliest of the three years; if not entirely used to offset income in that year, it is carried to the second year preceding the loss year, and any remaining amount is next carried to the taxable year immediately preceding the loss year. Anything then remaining can be carried over to as many as five years following the loss year (seven years for net operating losses incurred in tax years ending after 1975).

Unincorporated business income is, of course, taxed directly to the owner of the business under Maine's personal income tax. This tax, which became effective in July of 1969, basically conforms to the federal income tax system. Beginning January 1, 1977, rates range from 1% on the first $2,000 of taxable income to 10% on taxable income of $25,000 or more. Subchapter S corporations which have elected for federal tax purposes to account for tax on an individual rather than on a corporate basis, are likewise subject to the Maine personal, rather than corporate, income tax.

(b) **Property Tax.** In 1977, the weighted average municipal tax rate was about $24.50 per thousand dollars. In 1974, a uniform state tax for education tended to narrow the currently significant variations in property taxes between municipalities. Since education expenses have required the major share of property tax proceeds (about 67 percent), the equalization of school tax burdens between municipalities contributed significantly to equalized property taxes in general. Additionally, the State has increased its share of costs for local education from about 33 to 50 percent, thus substantially reducing the burden on the Maine property tax system.

In 1977, minimum assessment ratios were established requiring all municipalities to reach a 50% minimum by 1977, 60% by 1978 and 70% by 1979 and thereafter. In 1978, the statewide average municipal assessment ratio was 67% exceeding the requirements of this law.

The personal property tax on business inventories (including industrial inventories and stock-in-trade) has been repealed effective April 1, 1977.

(c) **Jobs and Investment Tax Credit.** Taxpayers, other than public utilities, making an investment in Maine qualify for a corporate income tax credit if they:

1. Invest at least $5,000,000 in a given taxable year which qualifies under the Internal Code investment credit provisions.
2. Increases the Maine Unemployment Security Commission wages by $1,200,000 in the same taxable year. As an example, this would equate with paying 200 employees each $6,000 in wages.

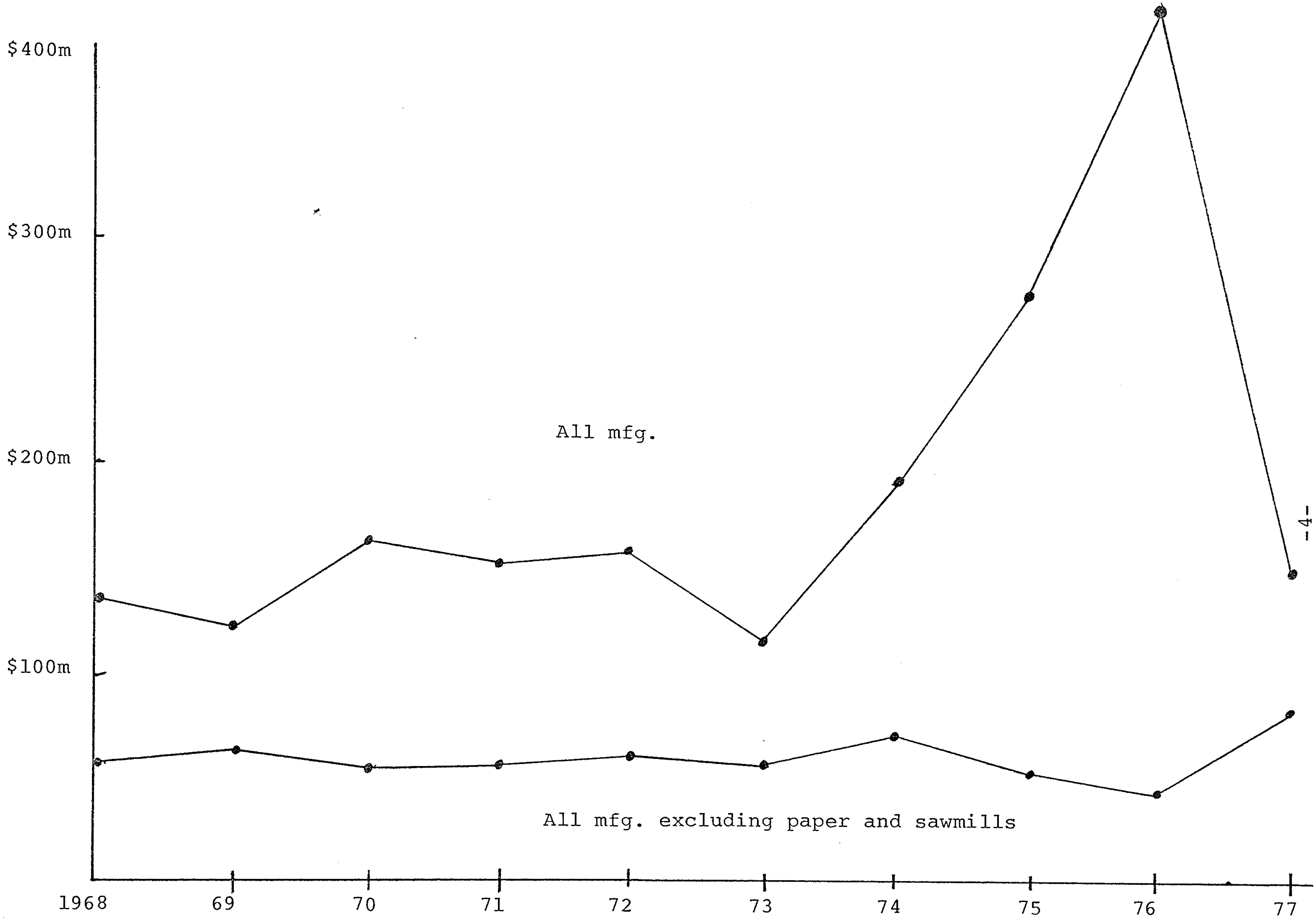
If these conditions are met, a credit equal to the federal investment credit is allowed, but not to exceed $300,000 or the amount of tax otherwise due, whichever is less. The law also provides for a carryover of unused credit for six years and a recapture in the case of early disposition of the property

(d) **Business Taxes.** The corporate franchise tax, applicable to businesses incorporated in Maine, has been repealed (effective December 31, 1974). Additional business taxes, too complex for this summary, are levied on insurance, railroad and telephone and telegraph companies.

(e) **Special Taxes.** Several Maine industries have requested that the State levy taxes on them to provide for research, development and promotion of their respective products. Among those taxes are the blueberry, fertilizer, marine worm, milk, dairy and nutrition council, potato, quahog and sardine industries. Other

The Need for Encouraging Economic Development in Maine

It clearly is advisable for Maine to encourage selected economic growth. Two indicators of economic activity in Maine confirm the need for development efforts, albeit selective ones. Apart from the paper and sawmill industry, new plant and equipment investments by manufacturers, as depicted in the following graph, have shown no growth from 1968 to 1977 when measured in constant 1972 dollars.


$400m
$300m
$200m
$100m
All mfg.
All mfg. excluding paper and sawmills
1968
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And in February of 1979 the seasonally unadjusted unemployment rate for Maine stood well ahead of the national rate, 7.7% as compared with 6.4%. Moreover, the Calais-Eastport rate was 14.6% as compared with the Kittery-York, where the new Pratt-Whitney jobs will be created, rate of 3.9%. Statewide figures appear in the following chart.

Manpower Research Division

LABOR FORCE DATA 1/

Labor Market Information Field Services Section

Released: March 28, 1979

Areas	Labor Force			Unemployment			Rate			Resident Employed		
	Feb. 1979 2/	Jan. 1979 2/	Feb. 1978 3/	Feb. 1979	Jan. 1979	Feb. 1978	Feb. 1979	Jan. 1979	Feb. 1978	Feb. 1979	Jan. 1979	Feb. 1978
DEFINED LABOR MARKET AREAS												
Augusta	26,790	26,870	26,510	1,800	1,860	1,860	6.7	6.9	7.0	24,990	25,010	24,650
Bangor-Brewer	40,300	39,200	37,500	2,700	2,900	2,600	6.7	7.4	6.9	37,600	36,300	34,900
Bath-Brunswick	19,790	19,920	18,040	1,130	1,350	1,210	5.7	6.8	6.7	18,660	18,570	16,830
Belfast	11,560	11,400	10,480	1,370	1,380	1,120	11.9	12.1	10.7	10,190	10,020	9,360
Biddeford-Sanford	28,900	29,100	27,700	2,000	1,800	1,600	6.9	6.2	5.8	26,900	27,300	26,100
Boothbay Harbor-Wiscasset	5,930	5,960	5,820	780	780	700	13.2	13.1	12.0	5,150	5,180	5,120
Calais-Eastport	14,580	14,270	13,940	2,130	1,930	1,730	14.6	13.5	12.4	12,450	12,340	12,210
Caribou-Presque Isle	20,120	20,140	20,470	2,110	2,350	2,400	10.5	11.7	11.7	18,010	17,790	18,070
Central Penobscot	3,400	3,430	3,130	190	210	180	5.6	6.1	5.8	3,210	3,220	2,950
Dover-Foxcroft	6,470	6,490	6,770	250	250	500	3.9	3.9	7.4	6,220	6,240	6,270
Ellsworth	16,890	16,840	16,520	1,880	1,780	1,590	11.1	10.6	9.6	15,010	15,060	14,930
Farmington	13,580	13,360	13,440	690	600	660	5.1	4.5	4.9	12,890	12,760	12,780
Fort Kent-Allagash	3,950	3,900	3,920	490	610	420	12.4	15.6	10.7	3,460	3,290	3,500
Greenville	890	880	1,010	60	50	70	6.7	5.7	6.9	830	830	940
Houlton	4,440	4,290	4,220	590	430	440	13.3	10.0	10.4	3,850	3,860	3,780
Lewiston-Auburn SMSA	37,500	37,300	35,800	2,600	2,400	2,300	6.9	6.4	6.4	34,900	34,900	33,500
Lincoln-Howland	5,170	5,190	4,930	370	330	400	7.2	6.4	8.1	4,800	4,860	4,530
Livermore Falls	4,870	5,020	4,990	430	410	480	8.8	8.2	9.6	4,440	4,610	4,510
Madawaska-Van Buren	4,600	4,580	4,220	600	570	470	13.0	12.4	11.1	4,000	4,010	3,750
Mechanic Falls	2,360	2,340	2,230	230	200	160	9.7	8.5	7.2	2,130	2,140	2,070
Millinocket-East Millinocket	4,880	4,900	4,860	200	160	210	4.1	3.3	4.3	4,680	4,740	4,650
Patten-Island Falls	2,540	2,430	2,490	250	200	210	9.8	8.2	8.4	2,290	2,230	2,280
Portland SMSA	85,500	84,700	79,900	5,000	4,700	4,700	5.8	5.5	5.9	80,500	80,000	75,200
Rockland	15,570	15,660	15,090	1,450	1,240	1,130	9.3	7.9	7.5	14,120	14,420	13,960
Rumford	18,610	18,430	17,870	1,530	1,380	1,350	8.2	7.5	7.6	17,080	17,050	16,520
Sebago Lake Region	10,690	10,730	9,880	780	760	660	7.3	7.1	6.7	9,910	9,970	9,220
Skowhegan	18,950	18,560	17,220	2,080	1,920	2,060	11.0	10.3	12.0	16,870	16,640	15,160
Kittery-York	14,990	15,160	14,420	580	520	580	3.9	3.4	4.0	14,410	14,640	13,840
Southwest Penobscot	6,710	6,800	6,480	870	950	900	13.0	14.0	13.9	5,840	5,850	5,580
Waterville	20,970	20,980	19,940	1,290	1,220	1,400	6.2	5.8	7.0	19,680	19,760	18,540
STATES: 4/												
Connecticut	n/a	1,531.3	1,469.3	n/a	93.7	94.0	n/a	6.1	6.4	n/a	1,437.6	1,375.3
MAINE	471.5	468.7	449.9	36.4	35.2	34.1	7.7	7.5	7.6	435.1	433.5	415.8
Massachusetts	2,918.0	2,904.0	2,789.0	193.0	219.0	199.0	6.6	7.5	7.1	2,725.0	2,685.0	2,590.0
New Hampshire	n/a	419.3	404.1	n/a	13.3	17.8	n/a	3.2	4.4	n/a	406.0	386.3
Rhode Island	431.5	427.2	418.5	34.3	33.7	36.6	7.9	7.9	8.7	397.2	393.5	381.9
Vermont	n/a	236.4	230.5	n/a	16.3	16.7	n/a	6.9	7.2	n/a	220.1	213.8
New England States 4/	n/a	5,986.9	5,761.3	n/a	411.2	398.2	n/a	6.9	6.9	n/a	5,575.7	5,363.1
United States 4/	101,249	100,867	97,924	6,484	6,431	6,739	6.4	6.4	6.9	94,765	94,436	91,185

1/ All rates shown are not seasonally adjusted. Estimates for the State and sub-State areas have been benchmarked to the latest Current Population Survey estimates for the State.
2/ Preliminary estimates.
3/ Revised estimates.
4/ In thousands.
n/a Not available.

Factors Influencing Plant Relocation and New Investments

Table I ranks factors typically cited as influencing plant locations and the sites of new investments. Among those mentioned only a few are directly influenced by government action. Governments have historically subsidized transportation facilities by building roads, aided in training workers through vocational education, provided sewers and water, and, lately, provided financing assistance through interest subsidies of various kinds. Additionally, government may be said to encourage or discourage business expansion through the regulatory environment and the tax climate.

Maine provides all the traditional forms of direct aid and it wields an array of financial assistance weapons as well. A brief description of Maine financial aids follows.

Table 1

MOST IMPORTANT FACTORS IN PICKING LOCATION FOR A PLANT ACTUALLY LOCATED IN PAST 5 YEARS

Q. . . . *which three to five factors were most important in choosing the location selected?*

TABLE 6

Factor	
Efficient transportation facilities for materials and products	41%
Proximity to customers	36
Availability of unskilled or semi-skilled workers	36
Availability of energy supplies	33
Productivity of workers	33
Community receptivity to business and industry	28
A growing regional market	26
Proximity to raw materials, components or supplies	26
State and/or local attitude toward taxes on business and industry	23
Costs of property and construction	22
Availability of skilled workers	17
Ample area for future expansion	17
Proximity to other company facilities	13
Water supply	11
State and/or local posture on environmental controls and processing of Environmental Impact Reports	11
Financing inducements	11
Availability of technical or professional workers	10
Proximity to services	8
Fiscal health of state and/or city	4
Adequate civic waste treatment facilities	4
Style of living for employees	4
Calm and stable social climate	4
Efficient transportation facilities for people	3
State and/or local personal income tax structure	2
Personal preferences of company executives	2
Availability of clerical workers	1
No answer	5
Average number of factors cited	4.5

MAINE FINANCIAL ASSISTANCE STATE & FEDERAL

STATE ASSISTANCE

Maine Guarantee Authority

The Maine Guarantee Authority (MGA) is empowered by law to (1) insure mortgage loans for private industrial and recreational projects, (2) allow municipalities to issue revenue securities, (3) make direct loans to Maine local development corporations for the construction of Community Industrial (shell) Buildings, and (4) issue revenue obligation securities for making direct loans for eligible projects.

The MGA may insure a percentage of mortgage loans made by banks and other financial institutions to industrial, fishing, agricultural, and recreational enterprises in Maine for the construction, modernization or expansion of plant, facilities and equipment.

All loans are made through a local non-profit development corporation which takes title to the project and leases it to the user tenant. Loans to be insured must be in accord with the following schedule:

1. Industrial Projects - to 90% of real estate costs with maturity up to 25 years plus 75% of equipment costs with maturity up to 10 years (fishing vessel construction loans may qualify for up to 80% of costs with maturity up to 20 years). Insurance will cover up to a maximum of $2.5 million and MGA insurance premiums can be no less than one-half of one percent and no more than two percent.
2. Recreational Projects - no more than 75% of real estate, furnishing and equipment costs with maturity up to 25 years. Insurance will cover up to a maximum of $2.5 million (minimum $100,000) and premiums are at the same rates as for industrial projects.

All projects on which a loan is to be guaranteed require approval of the Maine Department of Environmental Protection.

The MGA may empower Maine municipalities to issue tax exempt revenue securities for financing of construction, purchase, or expansion of local industrial and recreational facilities and for pollution control equipment or facilities. Health care facilities and multi-storied parking facilities are also eligible.

United States law sets a limit of $5 million in capital expenditures per company in one location in a six year period (with a very few exceptions). This six year limit begins three years before the issue and ends three years after. That is, if a given company financed an expansion in a given year with $2 million of its own funds, and then wished to issue bonds for another expansion a year later, it could issue the bonds (if approved by the MGA) only up to $3 million - to stay within the $5 million in six years limit. There are no limitations on pollution control projects.

The Maine Guarantee Authority is empowered to make direct loans to qualifying, local non-profit development corporations for the construction of a Community Industrial (shell) Building (CIB).

A CIB project involves the construction of an industrial building shell - not "finished off" - generally before a purchaser is available. The industrial company which purchases or leases shell then completes the building to its own specifications.

Communities applying for funds under this program are required to submit valid evidence of the need for this type of assistance in providing adequate job opportunities in the area, as well as evidence of reasonable assurance that the venture will be successful in attracting an industry.

Other Assistance Agencies

The Maine Veteran's Small Business Loan Authority (MVSBLA) and the soon to be operational Maine Small Business Loan Authority (MSBLA) will provide guaranteed loans up to $30,000 to assist small business in Maine. This is not a direct loan program, but rather loans handled through private financial institutions. The authority will guarantee up to 80% of the total cost of the project. Eligible activities applicable under the program are inventory, machinery, working capital and other business related expenses. The only requirement for both programs is an applicant must be a resident for 6 months, and for the MVSBLA an applicant must be a veteran.

The Maine Development Foundation (MDF) is a non-profit corporation created by the Legislature in October 1977 to stimulate economic development. The MDF is a partnership of public and private leaders responsible for (1) defining the best economic development opportunities and ways to capitalize on them, (2) assisting the State, cities, towns and local development organizations in attracting out-of-state industries and (3) providing business development, financial and other types of management and technical assistance to Maine businessmen and entrepreneurs. While not initially providing direct financial assistance, the efforts of the MDF should compliment the existing sources of capital available for economic development purpose.

6/78

Tax Relief as a Factor in Business Relocation or Expansion

Informed writings on the factors influencing businesses to relocate or expand concur that in a state with a reasonable tax structure state and local taxes fall well below other business concerns. Indeed, as ACIR has lately commented, "There is little empirical evidence to date that tax incentives or tax levels in general have much effect on industrial location decisions..." In a recent survey conducted by Fortune "State and/or local attitude toward taxes on business and industry" (emphasis supplied) ranked 9th and "State and/or local personal income tax structure" ranked 24th among a series of 26 factors cited as important in plant locations.

Closer to home, a Casco Bank sponsored inquiry in February, 1977 found that firms locating in Maine cited its "present state and local tax burdens" as among the most important factors in their final decisions. Firms deciding against Maine pointed to distance to markets or suppliers as of primary importance; taxes were not an important consideration.

The charts below compare Maine's business tax mix with those of its immediate neighbors. Note that Maine's business taxes compare favorably with those of its traditional tax rival New Hampshire with its hefty property and 8% gross business profits taxes. In a tabulation prepared by the State Planning Office, Table 2, of business tax collections as a proportion of total tax collections Maine's business taxes compare favorably with those of its neighbors. Major forms of tax incentives used by Maine and others are shown in Chart 1.

COMPARISON OF MAJOR TAXES RELATING TO BUSINESS, NEW ENGLAND STATES, 1977

Title of Tax	Maine	New Hampshire	Vermont
Corporate organization and qualification fees:	Included in domestic corporation franchise tax. Domestic - par value shares: graduated from \$10 per \$100,000 for \$2,000,000 or less to \$1,100 plus \$20 per \$1,000,000 in excess of \$20,000,000. No par value shares: graduated from ½¢ per share for 20,000 or less to \$5,050 plus 1/5¢ per share in excess of 2,000,000; minimum \$10. Same rates upon increase. Foreign - Application for authority to do business, \$100.	Domestic - \$60 for \$15,000 or less to \$1,500 when in excess of \$500,000, but not in excess of \$1,000,000; and \$100 for each \$100,000 in excess. Same rates for increase of capital stock. Minimum, \$30. No par value stock valued at \$50 per share for the first 20,000 shares and \$1 per share for any additional shares. Foreign - \$100 flat fee upon qualifying plus annual maintenance fee of \$150.	Domestic - graduated from \$20 for first \$5,000 or less authorized capital stock to \$800 for more than \$1,000,000 and not more than \$2,000,000; \$150 for each additional \$1,000,000 or fraction thereof in excess of \$2,000,000. No par stock values at \$100 per share. Increase of capital stock, minimum, \$15. Foreign - \$60 flat entrance fee.
Corporate annual report fee:	Domestic and foreign corporations must file an annual report. Filing fee, \$30.	\$60 flat rate fee for all corp.; foreign corps. maintenance fee, \$150; foreign partnership maintenance fee, \$50.	-\$2 filing fee for domestic corp. \$35 for foreign corp.
Domestic corporation franchise tax; foreign corporations license fees:	Repealed 12/31/74	An amount equal to the initial fee plus any fee paid for increases in authorized capital stock. Maximum, \$2,000; minimum \$60.	n.a.
General income tax:	Corporations - 4.95% of federal taxable income to \$25,000, and 6.93% thereafter. Individuals - First \$2,000, 1%; next \$2,000, 2%; next \$2,000, 3%; next \$2,000, 6%; next \$2,000, 7%; next \$5,000, 8%; next \$10,000, 9%; over \$25,000, 10% of federal adjusted gross income with modifications.	Corporations - 8% of federal gross business profits allocated to N.H. of corporations, partnerships, proprietorships, trusts or estates. Individuals - (Called intangible income tax) 5% on interest from bond, notes, money, debts, except interest from savings deposits, and on dividends from shares in business or trusts paid to resident individuals.	Corporations - (Domestic and foreign) and banks and loan associations - not over \$10,000 of net income, 5%; \$10,001 to \$25,000, 6%; \$25,001 to \$250,000, 7%; over \$250,000, 7.5%, minimum tax, \$50. Individuals - (Resident and non-resident) the tax is levied at 25% of the taxpayer's federal income tax liability for the taxable year less, for non-residents, the percentage of adjusted gross income which is not Vermont income. General withholding required.
Sales and use tax:	Sales - 5% of sale price of tangible personal property sold at retail or rental of living quarters in hotels, utility services, etc. Use - 5% of sale price of tangible personal property purchased for storage, use or consumption and the rental of living quarters. Purchases of new machinery and equipment for manufacturing and research are exempt from sales and use taxes.	n.a.	3% of taxable sales and uses, charges and rentals.
Employment insurance - or unemployment compensation tax:	Employers - 2.4% to 5% of first \$6,000 of wages paid to each employee during the calendar year, depending on employer's contribution and benefit experience and the amount in the state fund. Employees - none.	Employers - 2.8% (subject yearly to increase) to 6.5% for negative balance employers and 0.5% to 2.6% for positive balance employers of first \$6,000 paid to each employee in calendar year. Employees - none.	Employers - 1.7% (subject to increase) to 6% of first \$6,000 of wages paid to any employee during a calendar year, depending on relationship of employer's taxable payroll to his benefit experience and the condition of the state fund. Employees - none.

*n.a. - not applicable.

Not included are capital gains, meal and lodging, property, and most specific utility and financial institution taxes.

Source: "State Tax Guide"; Commerce Clearing House, Inc.; Chicago

COMPARISON OF MAJOR TAXES RELATING TO BUSINESS, NEW ENGLAND STATES, 1977

Title of Tax	Massachusetts	Connecticut	Rhode Island
Corporate organization and qualification fees:	Domestic - par value shares; 1/20 of 1%. No par value shares: 1¢ per share; Minimum, $125. Capital increase, same rates; minimum $50. Foreign - $200. Increases and decreases, $35.	Corporate organization - Domestic - First 10,000 shares, 1¢ per share; next 90,000 shares, ½¢ per share; next 900,000 shares, ¼¢ per share; over 1,000,000 shares, 1/5¢ per share; minimum, $50. Increases of shares, same. Foreign - $100.	Domestic and foreign - 1¢ per share for the first 10,000 shares; ½¢ per share over 10,000, but not over 100,000; 1/5¢ per share over 100,000. Minimum, domestic, $80; foreign, $15.
Corporate annual report fee:	$35 flat rate filing fee.	Annual report - Foreign and domestic flat rate. Recording and certifying - $21, including remittance of town clerk's fee.	Annual corporation report fee - $15 flat rate for domestic and foreign corporations.
Domestic corporation franchise tax; foreign corporations license fees:	n.a.	n.a.	Domestic corporation franchise tax - $2.50 per $10,000 authorized capital stock. Minimum, $100. Corporations not engaged in business in state during year - capital stock of $400,000 or less, $100; $400,000 to $1,000,000, $125; $12.50 per additional $1,000,000 or part. No par stock valued at $100 per share. Domestic corporations subject to the business corporation tax pay only the amount by which the capital stock tax exceeds the business corporation tax.
General income tax:	Corporations - $2.60 (includes surtax) per $1,000 of value of Massachusetts tangible property not taxed locally or net worth allocated to Massachusetts plus 8.33% of net income plus $14 surtax, or if larger, $200 plus $14 surtax. Interstate corporations, 5% on that portion of net income derived from Massachusetts business (different schedule for banks, savings institutions, trust companies). Individuals - income of residents and Mass. business income of nonresidents bond interest, notes, money at interest (other than in savings accounts), debts, corp. dividends, dividends in trusts, partnerships, and associations with transferable shares, net capital gains, (Part A, income), 10%. All other income (Part B, income), 5% of federal gross income with modifications. An additional 7.5% tax is imposed for tax years ending on or after 12/31/75.	Corporations - 10% of net income of corporations, financial institutions, domestic insurers and passenger carriers plus, to the extent it exceeds the tax on net income a tax of 31/100 of 1 mil per dollar of asset value; minimum $50, maximum $100,000. Certain financial institutions pay, to the extent it exceeds the tax on net income, a tax of 4% on interest credited to savings deposits. Declarations of estimated tax - corporations with tax over $10,000.	Corporations - business corporations 8% or 40¢ per $100 of corporate net worth (whichever is higher). Regulated investment companies, real estate investment trusts and personal holding companies, 10¢ per $100 gross income, or $100. State and national banks use different schedule. Individuals - 19% of federal tax liability. General withholding required.

*n.a. - not applicable.
Not included are capital gains, meal and lodging, property, and most specific utility and financial institution taxes.
Source: "State Tax Guide"; Commerce Clearing House, Inc.; Chicago. Also Taxation departments of the

COMPARISON OF MAJOR TAXES RELATING TO BUSINESS, NEW ENGLAND STATES, 1977

Title of Tax	Massachusetts	Connecticut	Rhode Island
Sales and use tax:	5% of gross receipts from retail sales or storage, use or consumption of taxable property. 6% on meals, effective January 1, 1978, to December 31, 1980.	Sales - 7% of gross receipts of retail sales of tangible personal property sold within the state and occupancies for the first period of 30 consecutive days or less. Sales of enumerated business services, 3.5% of gross receipts. Use - 7% of sale price of tangible personal property stored, used or consumed within the state. Manufacturing production machinery and enumerated business services, 3.5%.	6% of gross receipts from retail sales, rentals of tangible personal property, and room rentals to tourists and storage, use or consumption of all tangible personal property.
Employment insurance - or unemployment compensation tax:	Employers - 2.6% to 6.4% of first $6,000 of wages paid to each employee in calendar year. An additional contribution ranging from .1% to 1% will be required if solvency account reserve percentage is less than .5%. The rate for 1978 is 1%, and is included in the above rates. Employees - none.	Employers - 1.5% to 6% (subject yearly to increase, depending on conditions of fund) of first $6,000 of wages paid in calendar year to each employee. Tax credits may be available, depending on fund balance. Employees - none.	Employers - 2.2% to 4% of first $6,000 paid to each employee during calendar year. Employees - 1.5% of first $4,800 paid him in calendar year for disability insurance.

*n.a. - not applicable.

Not included are capital gains, meal and lodging, property, and most specific utility and financial institution taxes.

Source: "State Tax Guide"; Commerce Clearing House, Inc.; Chicago. Also Taxation departments of the subject st[illegible]

Table 2

Business Tax Collections as a Percentage of Total State and Local Tax Collections, Northeastern States, 1964-76*

	1964	1976	Percent Change 1964-76
All States	16.3%	15.5%	- 4.9%
Northeast	24.1	21.9	- 9.1
Maine	20.1	19.0	- 5.5
New Hampshire	19.5	24.3	24.6
Vermont	20.6	17.5	-15.0
Massachusetts	27.5	20.0	-27.3
Connecticut	24.2	23.6	- 2.5
Rhode Island	22.7	20.4	-10.1
New York	25.7	22.5	-12.5
New Jersey	21.8	20.6	- 5.5
Pennsylvania	20.8	22.3	7.2

*Business taxes include: corporate net income, property assessments on industrial and commercial properties, sales and gross receipts taxes on insurance companies and public utilities, and license taxes on corporations, public utilities, and miscellaneous occupations and businesses.

Source: Governmental Finances. The apportioning of total property assessments to business was based on data in Assessed Valuations for Local General Property Taxation, preliminary report No. 2, 1977 Census of Governments (for 1976 data), and Taxable Property Values, Vol. 2, 1967 Census of Governments (for 1964 data), both published by U. S. Department of Commerce, Bureau of the Census.

Chart 1

50 STATES

TAX INCENTIVES FOR INDUSTRY

	Pure	Cond'l	Total	Maine
Corporate Income Tax Exemption	14	9	23	Yes
Personal Income Tax Exemption	17	1	18	No
Excise Tax Exemption	10	3	13	No
Tax Exemption or Moritorium on Land, Capital Improvements	10	15	25	No
Tax Exemption or Moritorium on Equipment, Machinery	17	10	27	No
Inventory Tax Exemption on Goods in Transit (Freeport)	34	9	43	Yes
Tax Exemption on Mfg.'s Inventories	26	13	39	Yes
Sales/Use Tax Exemption on New Equipment	24	11	35	Yes
Tax Exemption on Raw Materials Used in Manufacturing	34	12	46	Yes
Tax Credits For Use of Specified State Products	1	2	3	No
Tax Stabilization Agreements for Specified Industries	3	0	3	No

Perhaps the most critical reason for the relative unimportance of state and local taxes in business location decisions is that they represent a very small portion of the costs of doing business. Moreover, if a firm is in a 48% federal corporate marginal tax bracket any small local tax savings will be cut virtually in half after paying federal taxes.

The important considerations, ranked above state and local attitudes toward taxes, include: 1) transportation for materials and products, 2) proximity to customers, 3) availability of semi or unskilled workers, 4) availability of energy, 5) community receptivity. The entire list of factors is contained in Table 1.

Indeed, it is difficult to determine what role the specific tax relief measure played in Pratt-Whitney's decision to locate in southern Maine. It is apparent that a skilled and reliable work force, together with state vocational training commitments, the ready availability of suitable buildings and the interest of state officials, including the governor, were as, if not more, important than the tax relief measure. Development officials in Maine have opined that Pennsylvania, the other important suitor, assembled a more impressive package of financial and tax incentives than Maine.

Given the limited impact of tax incentives on investment decisions government should be cautious in granting business tax relief. Ill devised measures will merely multiply tax "loopholes" providing windfall relief without stimulating economic development and reduce revenue that might be more intelligently spent on other types of government programs that could be effective in attracting new industry. These other programs might include financing incentives, vocational training for workers, or infrastructure investments such as roads, sewers, etc.

Because of the relative unimportance of state and local taxes in the business equation it is some times suggested that it does not matter what kind of business tax incentives are provided so long as some tax reductions are made to demonstrate government's commitment to development and a healthy business climate. Although appropriate at certain times, it is difficult to see how much more Maine government can do to demonstrate its favorable attitude. The 108th Legislature, last year, reduced the corporate income tax rate, provided a new jobs credit and met in special session to pass a major tax relief program. Further, as Table 2 indicates, business is contributing proportionately less revenues to the State than it did over a decade ago. Finally, although Maine did introduce a corporate income tax in 1969 it has discontinued its inventory tax and sales tax on plant and equipment. The Pratt-Whitney tax relief program was targeted to only one quite large firm. However, the repeal of the regressive sales and inventory taxes and their replacement by a progressive profits tax gave broad tax relief particularly to smaller firms. The following table shows that 84% of Maine's corporate income tax revenue in 1976 was attributable to 3% of its firms.

Distribution of Corporate Income Tax Payments

by firms, 1976

Income Category	No. of Firms	% of firms	Effective Tax Rate	Estimated Tax (by thousands)	Estimated % of all Tax
$ 0 or negative	4,700	46.5%	0%	$ 0	0.0
$ 1 $ 4,999	1,850	18.1	5%	$ 231	0.7
$ 5 $ 24,999	1,690	16.6	5%	$ 1,270	3.9
$ 25 - $ 99,999	1,090	10.7	6.1%	$ 3,797	11.4
$100 - $999,999	370	2.6	6.9%	$ 13,966	42.0
$1.0m -$ 9.9m	40	0.4	6.9%	$ 14,042	42.0
Total	10,190	100.0		$ 33,306	100.0
				(33,500) (actual)	

Tax Incentives for Maine Businesses

In view of the foregoing, the committee has taken no position on any specific tax incentive measures, although a few specific options are discussed briefly below and some pros and cons of LDs before the 109th Legislature are summarized in Chart 2.

One option that deserves note is that of not enacting anything specific at this time. The principal argument here is that a tax relief measure becomes a part of the basic tax structure over time and looses its value as an incentive. This may well be the case with the federal investment tax credit. And, it could become the case with the Pratt-Whitney legislation, leading some to the argument that that legislation ought to "sunset" after a reasonable period, permitting, in any event, a seven year carry-over period for any credit earned prior to "sunset." Further, there may be a real advantage in not giving tax revenue away or foregoing new revenues at this time, but rather waiting for opportunities to present themselves and then acting, as with Pratt-Whitney. What has been given away now cannot be given away again in the future, when it may be of more specific value.

Chart 2

Pros and Cons of Business Promotion L.D.'s

Bill	Pros	Cons
L.D. 629 - Sales Tax Exemption Used Machinery	Reduces initial investment cost	F/Y 1981 General Fund $286,000 loss
	Helps industry that rely on used machinery	Not linked to jobs
L.D.'s 953 and 1149 - Extending the New Jobs Credit	Linked to jobs	May "shelter" income earnable without new jobs
		No encouragement for new investment in capital intensive business or to improve productivity
L.D. 1072 - Tax Relief to Encourage Small Scale Hydroelectric Facilities	Develop alternate emergy source	Not linked to jobs
		May be unnecessary
		Not uniform across board incentive
L.D. 1299 - Investment Tax Credit for Farmers and Fishermen	Target aid to Maine resource developers	No uniform across board incentive
		Credit may "shelter" income earnable without new investment
		Not linked to jobs
		Fiscal Note not available
L.D. 1360 - General Investment Tax Credit	Uniform across board incentive	Credit may "shelter" income earnable without new investment
		Fiscal note not available
		Not linked to jobs

Bill	Pros	Cons
L.D. 1387 - Tax Credit for Investment Linked to Jobs and for "Extraordinary" Investment	Linked to jobs Uniform across board incentive	Alternate not linked to jobs Credit may "shelter" income earnable without new investment Complicated application Cost hard to guess

Tax Policy and the Specific Factors Influencing Investments

It was felt that of the twenty six factors listed in Table 1 ("Factors in Picking Location...") tax provisions might be appropriate at this time to affect the availability of energy in Maine. Specifically, tax incentives in the form of property and sales tax as well as income tax relief might be used to encourage the development of two sources of energy of particular relevance and hence importance to Maine, small scale hydroelectric power (*See* L.D. 1072), and the development and use of biomass (wood related) energy. Reasonable energy costs are important to industry. Although Maine electricity rates have been competitive until recently, forthcoming increases in the price of oil plus the uncertain future of atomic power may change this. It therefore seems reasonable to encourage the development and use energy sources available in Maine.

General Taxes that Might be Forgiven as an Incentive

Apart from a specific tax incentive such as that mentioned previously there are only three kinds of general taxes that might be modified to attract businesses -- property, sales and income taxes. Of these three the property tax seems the least promising.

Although property tax relief is a popular tool of the economic developer, providing an "up front" subsidy to offset a fixed annual cost, provisions of the Maine Constitution render it clumsy in Maine. First, localities may not be delegated power to exempt from tax individually. Second, any state wide mandated relief would probably be regarded as an attack on local discretion and would require a state appropriation to fund 50% of the cost. In addition to these constitutional problems, local property tax relief authorization might foster undesirable competition among municipalities. Finally, it would be difficult to target this relief to tie it to new jobs. The only specific icentives worthy of consideration appeared to be personal property tax relief on machinery and equipment. Maine now exempts inventory from tax.

Sales tax relief, like property tax relief, has the merit of immediately reducing startup costs by lowering initial investment. However, Maine now exempts new manufacturing equipment from the sales tax as well as agricultural and fishing and research and development equipment, leaving the possibility of exempting used machinery and repair parts as well as specific items such as services or certain logging equipment. Whether relief from this 5% levy would be a sufficient incentive to trigger an investment is questionable. Of course it may be that any broad based tax relief -- New Hampshire has no sales tax -- improves the general tax climate.

Income tax relief appears to be the most flexible and potentially the most significant in impact. A tax credit on investments may be tied to new jobs, a la Pratt-Whitney, or require that an investment expenditure threshold be reached. Indeed, income tax credits may be used indirectly to offset property tax liabilities as with the Pratt-Whitney legislation. A possible danger of investment income tax credits is their use to "shelter" existing income or income that would have resulted even without the investment in new plant or equipment. However, legislation may be drafted to "shelter" only incremental revenue, i.e., that resulting from the new investment. A further problem with a broad based incentive is that it comes to be regarded as a part of the general tax structure and loses its value as a specific incentive. As noted above, this result may be avoided with sunset provisions. Of course, broad based income tax relief, even if not of major significance to any individual firm, may improve the general tax climate.

A broad investment income tax credit at 100% of the federal credit would be far too expensive, see Table 3. The Pratt-Whitney legislation allowed a full credit (10% of investment) but employed a $5 million investment threshold, a $1.2 million jobs threshold and did not permit more than a $300,000 credit in any one year.

Table 3

Number of Firms Creating New Jobs
at Various Levels of Investment 1976-77

1976-77 Job Increase	1976 Investment		
	$5m+	$1-4.9m	Less than $1m
200+	1	1	2
100 - 199	6	3	2
1 - 99	4	9	1,107
Total	11	13	1,111

On the other hand the dollar threshold of the Pratt-Whitney measure severely restricts relief and does not permit smaller firms to avail themselves of it, a source of much criticism of the Pratt-Whitney bill. Therefore, an appropriate broad uniform tax credit without thresholds would have to be limited to a percentage of the federal tax credit for qualified investments: 20% seems a reasonable proportion, see L.D. 1360. And, such a credit could be conditioned on the creation of new jobs, see L.D. 1387. A proposal that melds these two ideas would require no new jobs for credit on up to $100,000 of investment, (the relief conditioned on no loss of jobs), but would require one new job for each $20,000 of qualified investment over $100,000. The committee also considered that the credit should only be allowed against income tax liabilities in excess of those of immediate prior years. This would limit tax relief to incremental taxes and not "shelter" existing income from taxes.

This broad relief could be an alternative to that granted under Pratt-Whitney and might be the sole form of investment credit upon the termination of the Pratt-Whitney measure, if it is subjected to a sunset provision.

Reissman.

STATE OF MAINE

In House December 6, 1978

Whereas, the Legislature is deeply concerned about the economic well-being of Maine's citizens and Maine's economy; and

Whereas, one of the best ways on ensuring a prosperous economy is by encouraging present Maine businesses to expand and new businesses to locate in Maine; and

Whereas, the experience of this State and of many other states shows that employment and investment tax credits are a great incentive to business expansion and to the attraction of new businesses; now, therefore, be it

Ordered, the Senate concurring, that the Legislative Council shall, using its available joint standing committee resources and staff resources, conduct a study to determine a uniform state policy on the use of state employment and investment tax credits for all forms of businesses, large and small, including corporations, partnerships and sole proprietorships, in order to encourage a flourishing Maine economy; and be it further

Ordered, that the Council shall complete this study no later than March 15, 1979 and submit to the Legislature within the same time period its findings and recommendations, including copies of any recommended legislation in final draft form; and be it further

Ordered, upon passage in concurrence, that a suitable copy of this Order shall be forwarded to each member of the Legislative Council.

HP 2351