

Tax Expenditures

Taxation Committee Responsibilities and Efforts

March 22, 2013 - Presentation to the
Joint Standing Committee on Taxation

Office of Fiscal and Program Review

Background

- Maine law defines a tax expenditure as any provision of state law that results in the reduction of tax revenue due to special exclusions, exemptions, deductions, credits, preferential rates or deferral of tax liability.
- Prior to 2003, the Taxation Committee conducted a review focused on a specific category of tax expenditures every two years on a rotating basis.
- Under current law, the Taxation Committee receives information from Maine Revenue Services on all tax expenditures and has authority to conduct a review and report out legislation. During the biennial budget process, the Committee reviews the Part of the budget that approves the continued funding of tax expenditures.

CURRENT LAW

Title 5, Chapter 149: BUDGET

§1666. Review and revision of estimates

- The Governor is required to include tax expenditures in the biennial budget.
- The Governor is required to include language in the biennial budget asking the Legislature whether it wishes to continue funding each individual tax expenditure.
- The Legislature may authorize the continuation of existing tax expenditures in the biennial budget.

FY 2014-15 Biennial Budget - PART T

Sec. T-1. Tax expenditures. In accordance with the Maine Revised Statutes, Title 5, section 1666, funding is continued for each individual tax expenditure, as defined in Title 5, section 1666, reported in the budget document submitted by the Governor on January 11, 2013.

CURRENT LAW

Title 36, Chapter 10: TAX EXPENDITURE REVIEW

- Maine Revenue Services is required to submit a report to the Taxation Committee that includes:
 - A. A summary of each tax expenditure in the laws administered by the bureau;*
 - B. A description of the purpose and background of the tax expenditure and the groups likely to benefit from the tax expenditure;*
 - C. An estimate of the cost of the tax expenditure for the current biennium;*
 - D. Any issues regarding tax expenditures that need to be considered by the Legislature; and*
 - E. Any recommendation regarding the amendment, repeal or replacement of the tax expenditure.*

36 MRSA §199-B

- The Taxation Committee has the authority to review the tax expenditure report and current issues of tax policy including tax expenditures as well as the overall structure of tax laws and other tax policy issues.

36 MRSA §199-C

- The Taxation Committee has the authority to report out legislation related to recommendations resulting from the review.

36 MRSA §199-D

Recent review by the Taxation Committee

124th Legislature, 2nd Regular Session

- The Taxation Committee reviewed approximately 10 tax expenditures using the 2006 OPEGA report, DEDC's Comprehensive Economic Development Plan (2008) and Maine Development Foundation's Inventory of Economic Development Programs as background.
- They established a subcommittee that met with staff members from Maine Revenue Services (MRS) and the Department of Economic and Community Development (DECD) and reported findings to the full Committee along with follow up information from the agencies.
- The subcommittee reported some tax expenditures may be meeting the intended objectives, but overall a better understanding of objectives and a stronger basis for evaluating tax expenditures is needed.
- No formal recommendations came from the full Taxation Committee, but the majority supplemental budget report recommended a reduction in percentage for sales tax exemption for fuel and electricity for manufacturing.

Recent review by the Taxation Committee

125th Legislature

- Work of the Taxation Committee during the interim resulted in a plan for evaluating new tax expenditures and using current authority to review existing tax expenditures.
- LD 1760 proposed a review process for the Taxation Committee to use when reviewing proposals for new or expanded tax expenditures with 9 criteria including:
 - groups and numbers of taxpayers affected,
 - the public policy that provides justification for the proposed tax expenditure,
 - fiscal impact projections related to the proposed tax expenditure,
 - potential impact the proposed tax expenditure may have on the economy,
 - unintended benefits or negative consequences of the proposed tax expenditure,
 - similar tax expenditures in other states,
 - standards of accountability or reporting related to the proposed tax expenditure,
 - methods for evaluating the proposed tax expenditure, and
 - mechanisms for recapturing the proposed tax expenditure if objectives are not fulfilled.
- LD 1760 proposed a requirement for a sunset date on all new tax expenditure proposals and required other policy committees to seek an advisory opinion from the Taxation Committee.
- The bill was voted ONTP in the Taxation Committee on February 9, 2012.