Maine Legislature- Office of Program Evaluation and Government Accountability

TAX EXPENDITURE EVALUATION (2020)

BUSINESS EQUIPMENT TAX REIMBURSEMENT PROGRAM AND

BUSINESS EQUIPMENT TAX EXPENDITURE PROGRAM (BETR/BETE)

About OPEGA

Office established in 2015

OPEGA conducts evaluations at the direction of the Government Oversight Committee (GOC)

- 10 member, bipartisan, bicameral

Staff of 9: 7 analysts, 1 administrative secretary, director

Tax expenditure evaluations are required by statute (since 2015) – with categorization and schedule of reviews established by the GOC in consultation with Joint Standing Committee on Taxation

Full evaluations are generally grouped by the type of behavior the expenditure intends to provide incentives for/encourage

BETR and BETE – brief overview

- State programs that reduce or eliminate **municipal** property taxes on qualifying business equipment
- Programs are concurrently administered by MRS with significant reliance on municipalities
- Under BETR – The State (Maine Revenue Services) reimburses businesses for municipal property taxes already paid
- Under BETE – Businesses are exempt from paying municipal property taxes in the first place and the State later pays municipalities for a portion of the tax revenue they lost the opportunity to collect
- Most business equipment in Maine qualifies for one of the two programs – eligibility depends on the date the asset was put into service and the type of business that owns it
- Eventually, nearly all assets under the BETR program will age out (useful life) – leaving just BETE to achieve the programs' goals
- Determining eligibility of equipment can be challenging

BETR and BETE program intent and goals

Programs' intent:

- to overcome the disincentive to growth of capital investment in Maine stemming from the high cost of owning business equipment

Programs' goals:

- to reduce the cost of owning business equipment in Maine, particularly in comparison to other relevant states and countries
- to encourage growth of capital investment by businesses in Maine

- ❑ OPEGA found that the programs met their shared goal of reducing the costs of owning business equipment – by reducing or eliminating the municipal property tax.

- ❑ It was less clear whether the programs encouraged capital investment – any impact would be marginal evidenced by the fact that relatively few businesses received financially significant benefits

State program embedded in a municipal function

BETR's impacts on municipalities are minor – taxes are collected and then businesses deal with state for reimbursement

BETE's impact (reliance) on municipalities is significant. Municipality assesses the business equipment, determines eligibility for exemption and submits for (partial) reimbursement from the State.

- Maine Constitution requires state to reimburse municipalities at least 50% of revenue lost via state programs which provide credits based in municipal taxes
- BETE's statutory design allows for some enhancements to reimbursement rate
- In FY 18, 61% of the personal property taxes that municipalities could not collect due to BETE were paid back to municipalities

Old equipment phasing out under BETR – new assets qualifying under BETE

Statutory shifts in program eligibility have driven the total value of benefits under BETE to increase while those under BETR have decreased.

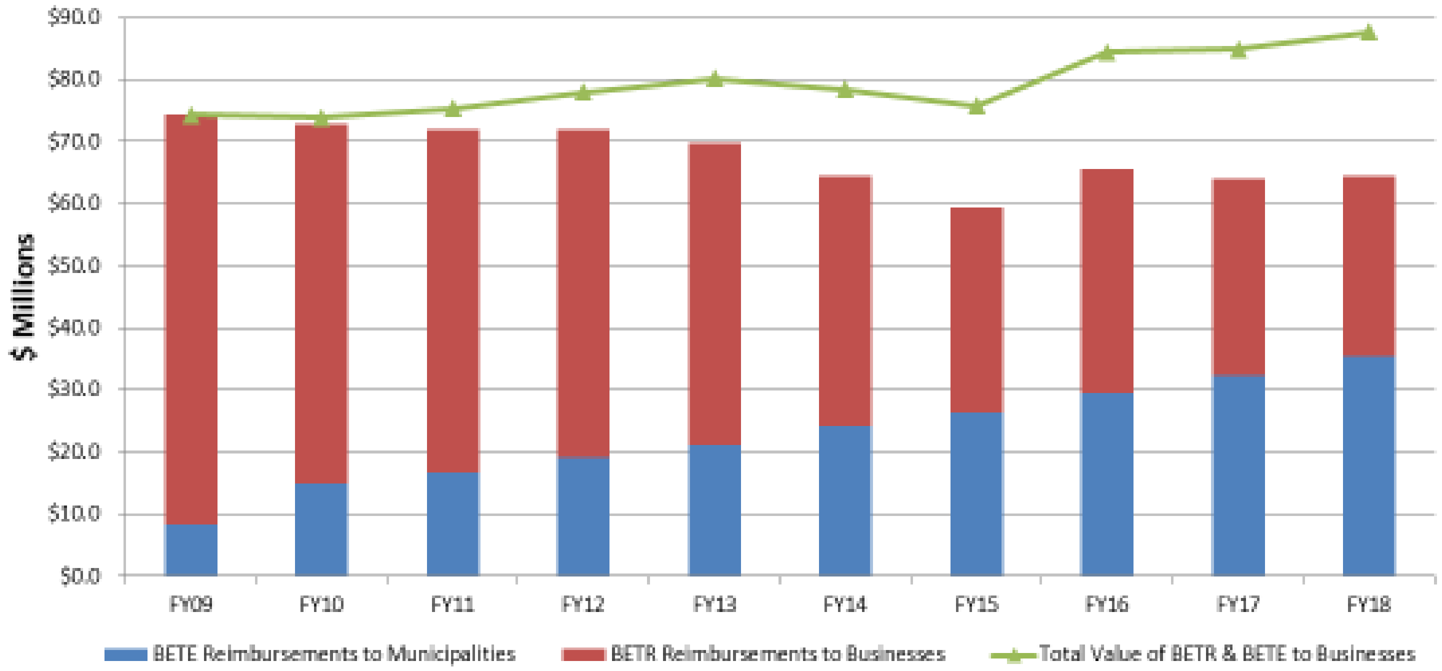
Despite the decrease, combined benefits provided under the programs have increased $13.3 million between FY09 and FY18.

Over the same period, state reimbursements for the programs combined have dropped by $9.7 million.

The State has been able to provide increased benefits to businesses at a lower cost because all of the increased benefits have been under BETE, and BETE benefits cost the State less to provide.

State Costs of BETR & BETE
Benefits to Businesses Compared to State Costs

Between FY09 & FY18, the value to businesses has increased by $13.3M, while State reimbursements have decreased by $9.7M.



Source: Analysis of Data Supplied to OPEGA by Maine Revenue Services.

pages 11-13 and 26

Impact of administration on the overall success of the programs

The shift from BETR to BETE tells the story of the impact of administration

From state's perspective:

- program costs went down, including administrative costs
- benefits reduce costs of owning equipment (one goal)

From the businesses' perspective:

- benefits to businesses increased
- exemption (BETE) allows business to keep cash on hand, no waiting for reimbursement (BETR)

From municipal perspective:

- BETE’s exemption removes municipalities’ ability to collect taxes on qualifying equipment – so, revenue from person property tax on equipment not received up front
  - A portion of that uncollected revenue is later paid to municipality by state (per Constitution and some statutory elements of BETE’s design)
  - The qualifying equipment under BETE had never been part of the municipalities tax base
  - FY 18 municipal reimbursement was 61% of property taxes not collected due to BETE
- Errors in determining BETE reimbursement can result in “bill-backs” to municipality – and determining eligibility of equipment can be challenging
- The work of assessing the value of business equipment continued despite shift in programs (submission of annual municipal report facilitates reimbursement by state)
  - ✓ Enterprising assessors reported using the program to persuade businesses to declare property (maximizing reimbursement from state, potentially broadening tax base)

In conclusion-

Overall success of the program:

Both BETR and BETE reduced the cost of owning business equipment – a goal that OPEGA found was met by the programs

OPEGA found that the programs likely have only limited impact on encouraging capital investment -neither program includes design elements that specifically encourage capital investment (that wouldn't have otherwise occurred) and the value of the cost savings is relatively small

Impacts of administration on program success might be a matter of perspective:

From state's perspective the shift from BETR to BETE, and corresponding changes in administration, reduces state's overall costs while increasing value of benefits to businesses

Because the programs are rooted in a municipal function – impacts are inevitable. Mitigation of impacts – from Constitution, statutory design and careful roll out of BETE as ultimate replacement to BETR were substantial but not complete

Complexity of determining eligibility could contribute to errors which can have financial impact on municipalities – sometimes substantial