10-1-2019

# Aggregate Revenue Loss to the State from Certain Pine Tree Development Zone Benefits, 2019

Maine Revenue Services

Maine Department of Administrative and Financial Services

JANET T. MILLS
GOVERNOR

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JEROME D. GERARD
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October 17, 2019

Senator Benjamin Chipman, Co-Chair
Representative Ryan Tipping, Co-Chair
Joint Standing Committee on Taxation
100 State House Station
Augusta, ME 04333-0100

Senator Erin D. Herbig, Co-Chair
Representative Matthea E. L. Daughtry, Co-Chair
Joint Standing Committee on Innovation, Development, Economic Advancement and Business
100 State House Station
Augusta, ME 04333-0100

Heather Johnson, Commissioner
Department of Economic and Community Development
59 State House Station
Augusta, ME 0433-0059

Dear Committee Co-Chairs and Commissioner Johnson:

Pursuant to 30-A M.R.S. § 5250-P, I have enclosed the annual report regarding the aggregate revenue loss to the State of Maine from certain Pine Tree Development Zone benefits. Please feel free to contact me if you have any questions about this report.

Sincerely,

Jerome D. Gerard

Jerome D. Gerard

Enc.

cc: Members of the Joint Standing Committee on Taxation
Members of the Joint Standing Committee on Innovation, Development, Economic Advancement and Business
Kirsten LC Figueroa, Commissioner, DAFS
Richard B. Thompson, Jr., Deputy Commissioner, DAFS

# Aggregate Revenue Loss to the State from Certain Pine Tree Development Zone Benefits

## A Report Prepared for the:
## Joint Standing Committee on Taxation
## Joint Standing Committee on Innovation, Development, Economic Advancement and Business
## Commissioner of Economic and Community Development

**Department of Administrative and Financial Services**
**Maine Revenue Services**

**October 1, 2019**

## I. Introduction

Maine Revenue Services ("MRS") is providing this report in compliance with Maine Revised Statutes Title 30-A, section 5250-P, subsection 1, paragraph B, which requires the agency to provide an annual report by October 1 to the Joint Standing Committee on Taxation, the Joint Standing Committee on Innovation, Development, Economic Advancement and Business, and the Commissioner of Economic and Community Development of the aggregate revenue loss to the State for the most recently completed state fiscal year resulting from Pine Tree Development Zone ("PTDZ") benefits under section 5250-I, subsection 14, paragraphs B (expanded employment tax increment financing ("ETIF") benefits), C (PTDZ sales tax exemption and sales tax reimbursement) and D (PTDZ insurance premiums and income tax credits).

## II. Description of Benefits

a. Expanded ETIF benefits under Title 36, chapter 917.

Under ETIF, a business may receive payments equal to 30%, 50%, or 75% of the State income tax withholdings paid for its qualified new employees. The ETIF rate each business may receive is determined based on the unemployment rate of the Labor Market Area in which the business is physically located.

A qualified PTDZ business is entitled to reimbursement of 80% of State income tax withholdings paid during the calendar year which is attributed to qualified PTDZ employees, employed directly in the qualified business activity. A PTDZ business is entitled to reimbursement for a period of no more than 10 years for tier-1 locations and no more than 5 years for tier-2 locations. Reimbursement may not be paid for years beginning after December 31, 2031.

The revenue loss reported in this report is the difference between what the PTDZ businesses received at the 80% PTDZ reimbursement rate and what they would have received under ETIF alone.

b. The sales tax exemption under Title 36, section 1760, subsection 87 and the sales tax reimbursement under Title 36, section 2016.

A sales tax exemption is available for sales of tangible personal property and distribution of electricity to a qualified PTDZ business for use directly and primarily in one or more qualified business activities. The exemption is limited for each qualified PTDZ business to sales occurring within a period of 10 years in the case of a business located in a tier-1 location and 5 years in the case of a business located in a tier-2 location from the date the business is certified, or until December 31, 2028, whichever occurs first.

When a taxpayer makes a tax-exempt purchase using a sales tax exemption, they are not required to report the purchase to MRS. In addition, sellers are not required to separately report exempt sales by exemption type. As such, MRS cannot directly measure the revenue loss due to a sales tax exemption. Instead, this report includes an estimate of the revenue loss due to the PTDZ sales tax exemption.

A reimbursement of sales and use tax is allowed with respect to the sale or use of tangible personal property that is to be physically incorporated in and becomes a permanent part of real property that is owned by or sold to a qualified PTDZ business and is used directly and primarily by that business in one or more qualified business activities. A reimbursement is also allowed for taxes paid in connection with the sale or use of tangible personal property and the transmission and distribution of electricity that has occurred within the period between the date a qualified PTDZ business was issued a letter of certification and the date the business received a sales tax exemption certificate.

c. The PTDZ tax credits provided by Title 36, sections 2529 and 5219-W.

A credit is available to certain businesses that expand or begin operations in most areas of the state. The credit allowed is 100% of the Maine tax liability for the first five years and a credit for 50% of the tax for each tax year six through ten. Only the tax associated with qualified business activity is eligible for the credit. Due to the timing of the relevant tax returns, the most timely and accurate revenue loss information MRS can report is for tax years beginning in 2017, for which the revenue loss was $3,233,301.

## III. General Fund Revenue Loss for Fiscal Year 2019

| PTDZ Benefit | Amount |
|---|---|
| Expanded ETIF Benefits[1] | $4,891,789 |
| Sales Tax Exemption[2] | $1,000,000 - $2,999,999[3] |
| Sales Tax Reimbursement[4] | $89,953 |
| Tax Credits[5] | $3,260,000[6] |
| Total | $9,241,742 - $11,241,741 |

[1] Title 36, chapter 917.
[2] Title 36, section 1760, subsection 87.
[3] Estimate based on best available data, see section II(b) for further discussion.
[4] Title 36, section 2016.
[5] Title 36, sections 2529 and 5219-W.
[6] Estimate based on best available data, see section II(c) for further discussion.