

**Parameters for OPEGA’s Full Evaluation of the
Business Equipment Tax Reimbursement (BETR) & Business Equipment Tax Exemption (BETE)
as approved by the Government Oversight Committee 5-12-17**

Program	Enacted	Statute(s)	Type	Category	Est. Revenue Loss
BETR	1995	36 MRSA Ch915	Property Tax	Business Incentive	FY18 \$26,800,000
			Reimbursement to Businesses	- Equipment Investment	FY19 \$23,420,000
BETE	2005	36 MRSA Ch105 subCh 4-C	Property Tax	Business Incentive	FY18 \$37,968,101
			Reimbursement to Municipalities	-Equipment Investment	FY19 \$42,968,623

Source for Estimated Revenue Loss: Maine State Tax Expenditure Report 2018 – 2019.

Program Description

The Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs provide reimbursements or exemptions to businesses for municipal property taxes on specified business equipment. Under BETR, the State reimburses businesses directly for a portion of the property taxes paid to local tax jurisdictions, while under BETE, the State reimburses local tax jurisdictions for a portion of property taxes foregone due to property tax exemption. The similarities and differences between the two programs are discussed in the sections that follow.

Eligible Equipment Is Defined the Same for Both BETR and BETE

Both programs define qualified business equipment similarly as equipment that is depreciable, or has been fully depreciated, under the Internal Revenue Code including the following types of equipment:

- personal property that furthers a particular trade or business activity and is devoted to a business purpose;
- parts, additions & accessories;
- construction in progress; or
- inventory parts.

Both BETR and BETE exclude the following equipment:

- equipment owned by an entity that is otherwise exempt from property tax,
- natural gas pipelines, unless owned by a consumer of gas and less than 1 mile in length;
- pollution control facilities that are entitled to an exemption under §656 subsection 1 ¶E;
- certain gambling equipment;
- property used to transmit energy for sale;
- items from Title 36, chapters 111 & 112 (aircraft, house trailers, motor vehicles, watercraft); and
- equipment owned by public utilities, radio paging services, mobile telecommunications services, cable television companies, satellite-based direct television broadcast services, and multichannel, multipoint television distribution services.

Eligibility for BETR and BETE Varies Based on Type of Business

Most businesses in Maine can generally benefit from both BETR and BETE; however, particular property owned by the business can only be eligible for reimbursement or exemption in one program or the other. As shown in the table that follows, the property eligible for BETR or BETE depends on a business’s industry, the type of property purchased, and the date the property was placed in service.

Eligible Businesses	Eligible Equipment	
	BETR	BETE
Non-Retail Businesses	Equipment first placed in service in Maine after April 1, 1995 and before April 1, 2007 that is current on property tax payments to the municipality.	Equipment first placed in service in Maine after April 1, 2007 .
Large Retail Businesses (exceeding 100,000 square feet of interior sales space)	All equipment first placed in service from 1995 until April 1, 2006 . Equipment first placed in service on or after April 1, 2006 for large retail businesses that derive less than 50% of their total annual revenue (nationwide) from sales that are subject to Maine sales tax. (After April 1, 2007, large retail businesses that could be eligible for BETR and BETE may only use BETE.)	Equipment first placed in service after April 1, 2007 for large retail businesses whose Maine-based operations derive less than 30% of their total annual revenue from sales that are made at retail facilities located throughout Maine.
Small Retail Businesses (less than 100,000 square feet of interior sales space)	Equipment placed into service at any time from 1995 to date .	None.

BETR and BETE Differ in Who the State Makes Payments to and in How Much the State Pays

	BETR	BETE
Entity that Receives Payment from the State	The State reimburses businesses for a portion of the property taxes paid to a municipality on equipment eligible under BETR.	The State reimburses municipalities for a portion of the property taxes they would otherwise have collected on equipment eligible under BETE.
Amount of Payments	The State reimburses a percentage of the property taxes paid by a business. The percentage is specified in statute and varies according to the number of years the equipment has been in service. For some years the state has paid only a portion of the percentage designated in statute. In the years 2006, 2009, 2010, and 2013 businesses were reimbursed only 90% of the percentage allowed by statute. For 2014 they received 80% of the statutorily allowed amount.	The State reimburses a percentage of a municipality's foregone property taxes. The percentage started at 100% in 2008 when the program began and gradually reduced to 50% by 2013. Reimbursement is scheduled to remain at 50% for future years with exceptions for: <ul style="list-style-type: none"> • municipalities where total <i>business</i> property value (both taxable and exempt) exceeds 5% of the municipalities' <i>combined residential and business</i> property value (both taxable and exempt); or • municipalities with TIFs approved before 4/1/2008 that meet particular requirements.

As can be seen from the above table, municipalities receive all of their local property taxes from businesses under the BETR program. Under BETE they receive no taxes from business on eligible equipment, but they typically receive half of what the businesses would have paid from the State. The effect on businesses differs under the two programs as well. Businesses are exempt from the full amount of the property taxes on eligible equipment under BETE, while under BETR they must pay the full amount and are reimbursed for only a portion of that amount.

The Processes by Which Businesses Apply for Benefits Are Different for BETR and BETE

A business desiring to apply for the BETR local property tax reimbursement from the State must notify the local taxing jurisdiction of its intent, and request a statement of just value and the associated tax for the property. The business then submits an application to the State Tax Assessor who certifies qualified businesses, and must reimburse businesses with eligible equipment by November 1st, or within 90 days after receipt of the claim, whichever is later. The State Tax Assessor also certifies to the State Controller annually the amount to be transferred from the General Fund to the BETR reserve account to cover the cost of reimbursements.

To receive the BETE property tax exemption a business must apply to the local tax assessor every year, regardless of whether there has been any change to the equipment for which the exemption is being requested. The local tax assessor indicates on a standardized form whether each piece of equipment is BETE eligible, whether it is in a TIF district, and its assessed value. The local tax assessor then summarizes the amount of just value and exempted amounts and applies to the State Tax Assessor for reimbursement. MRS reviews the claims and determines the total amounts to be paid and then certifies the payments. The State Treasurer is required to pay the municipality by December 1st of the year in which the exemption applies.

Evaluation Parameters Subject to Committee Approval

The following parameters are submitted for GOC approval as required by 3 MRSA §999 subsection 1, paragraph A.

(1) Purposes, Intent or Goals

Intent (BETR & BETE) — To overcome the disincentive to growth of capital investment in Maine stemming from the high cost of owning business property, thereby promoting the general welfare of the people of the State of Maine.

Goals – To reduce the cost of owning qualifying business property in Maine, particularly in comparison to other relevant states and countries.

To encourage growth of capital investment by businesses in Maine.

(2) Beneficiaries

Primary Intended Beneficiaries (BETR & BETE) — Businesses investing in qualifying property.

Secondary Intended Beneficiaries (BETR & BETE) – The people of the State of Maine.

Other Impacted Parties (BETR & BETE) – Municipalities.

(3) Evaluation Objectives

Below are the objectives the evaluation proposes to address. The objectives are coded to indicate which of the performance measures in section (4) could potentially be applicable.

Each objective will be explored to the degree possible based on its relevance, the level of resources required and the availability of necessary data. Any substantial statutory changes since the program's enactment will be considered in addressing objectives impacted by those changes.

Objectives	Applicable Measures
1) The fiscal impact of the tax expenditure, including past and estimated future impacts;	C, D, E Qualitative
2) The extent to which the design of the tax expenditure supports achievement of the tax expenditure's purposes, intent or goals and consistent with best practices;	Qualitative
3) The extent to which the tax expenditure is achieving its purposes, intent or goals, taking into consideration the economic context, market conditions and indirect benefits;	A, C, E, F, G, H, I Qualitative
4) The extent to which those actually benefiting from the tax expenditure are the intended beneficiaries;	A, B, C, E, F, G, H Qualitative
5) The extent to which it is likely that the desired behavior might have occurred without the tax expenditure, taking into consideration similar tax expenditures offered by other states;	C, F, H, I Qualitative
6) The extent to which the State's administration of the tax expenditure, including enforcement efforts, is efficient and effective;	Qualitative
7) The extent to which the tax expenditures (BETR & BETE) are coordinated with, complementary to or duplicative of each other or other similar initiatives;	Qualitative
8) The extent to which the tax expenditure is a cost-effective use of resources;	A, C, D, E, G, H, I, Qualitative
9) The extent to which municipalities in the state are impacted by the program fiscally, administratively or otherwise;	A, B, C, F, I Qualitative
10) Any opportunities to improve the effectiveness of the tax expenditure in meeting its purposes, intent or goals.	Qualitative

OPEGA will perform additional work as necessary, and as possible within existing resources, to provide context for OPEGA's assessment of this program in Maine, including review of literature or reports concerning these programs nationally or in other states.

(4) Performance Measures

Performance measures are coded to indicate which of the above objectives they could potentially help address. Measures will be calculated to the degree possible based on the level of resources required and the availability of necessary data.

Proposed Performance Measures for BETR & BETE

A	# Total businesses receiving reimbursement for local property taxes under BETR # Total businesses receiving tax exemptions under BETE # Total municipalities receiving reimbursements for BETE tax exemptions
B	Business participation rate: comparison of number of businesses receiving either BETR or BETE to number of businesses in the state Municipal participation rate: comparison of number of municipalities receiving BETE reimbursement to total number of municipalities
C	Total BETR reimbursement amount received by businesses Total BETE tax exemption amount received by businesses Total BETE reimbursement received by municipalities Total BETE property tax revenue foregone by municipalities net of State reimbursements
D	Direct program cost to state: state administration costs + amounts paid by the State to businesses or municipalities
E	Net impact on state budget (using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)

F	Average amount of BETR reimbursement and BETE exemption per business, including min & max Average BETE payment per municipality, including min & max Average BETE property tax revenue foregone per municipality, including min and max
G	Indicators of economic impact (using economic modeling to estimate impacts such as GDP or employment growth)
H	% reduction in the cost of eligible business property
I	Indicators of growth in capital investment

Performance measures would typically be calculated by year to allow for analysis of percentage changes year over year, trends, etc. Further calculations and breakouts that would be considered, as appropriate, include:

- per capita,
- comparison to industry or geographic trends,
- by business sector,
- by new vs. continuing beneficiary,
- by county or municipality, or
- by firm size.