Proposed Parameters for OPEGA's Full Evaluation of the
Maine Capital Investment Credit (MCIC)

Enacted	Statute(s)	Type	Category	Est. Revenue Loss
2011	36 MRSA §5219-GG 36 MRSA §5219-JJ 36 MRSA §5219-MM 36 MRSA §5219-NN	Income Tax Credit	Conformity with IRC	FY18 $9,350,000 FY19 $5,950,000

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

Program Description

The Maine Capital Investment Credit (MCIC) is a personal and corporate income tax credit for depreciable property placed in service in Maine. Although this credit is categorized as "conformity with IRC" (Internal Revenue Code), the credit does not actually conform to the federal tax code. Instead, it is a Maine-specific credit that is based on a federal depreciation deduction – both of which provide a tax benefit associated with purchases of new depreciable property.

The State's response to the federal bonus depreciation deduction enacted in 2001 has varied over time from full conformity to a complete decoupling. Currently, MCIC allows a Maine taxpayer who claims the federal bonus depreciation deduction under US Code, Section 168(k) to claim a credit on their Maine taxes for a percentage of the federal depreciation reduced by the depreciation that would have been allowed in the first year if bonus depreciation did not exist. For tax year 2016, the credit was 9% for corporations and 7% for individuals.

$$\text{2016 MCIC credit} = \left[\begin{array}{l}\text{9\% for corporations or}\\ \text{7\% for individuals}\end{array}\right] \times \left[\left(\begin{array}{c}\text{amount of federal}\\ \text{bonus depreciation for}\\ \text{Maine equipment}\end{array}\right) - \left(\begin{array}{c}\text{amount of federal}\\ \text{depreciation for Maine}\\ \text{equipment allowed in 1}^{\text{st}}\\ \text{year if bonus didn't exist}\end{array}\right)\right]$$

In prior years, the MCIC percentages have ranged from 8-10% and the calculation has varied as dictated by State statute, with a factor based on what proportion of the depreciable property is located in Maine. The calculations for this credit, as well as annual State and federal rule changes, are very complex as evidenced by the 60 page guidance document Maine Revenue Services (MRS) provides for taxpayers affected by bonus depreciation.

Property must be used within the State of Maine for the entire 12-month period beginning with the date the property is placed in service in Maine or else the credit may be recaptured. In addition, some property is excluded from the MCIC credit, including:

- property owned by a public utility;
- property owned by a person that provides radio paging services;
- property owned by a person that provides mobile telecommunications services;
- property owned by a cable television company;
- property owned by a person that provides satellite-based direct television broadcast services; and
- property owned by a person that provides multichannel, multipoint television distribution services.

The credit is non-refundable and may be carried forward for up to 20 years. Maine taxpayers are only eligible to take the MCIC credit if they qualified for, and claimed, the associated federal bonus depreciation deduction. To receive the MCIC tax credit, a business must complete the MCIC income tax credit worksheet. The MCIC is administered solely by MRS, which reviews and processes the MCIC income tax return worksheets.

There is currently no sunset, or end date, for the MCIC credit in Maine statute. However, since the credit is based on the federal bonus depreciation it would become a $0 credit if the federal bonus depreciation deduction ended. The federal bonus depreciation deduction is currently scheduled to sunset in 2019. However it is unclear whether the sunset will actually occur as the deduction has been extended beyond sunset dates in prior years.

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 — To stimulate the Maine economy by encouraging businesses to expedite capital investments in Maine.

Goal — To encourage businesses to expedite purchases of qualifying business property in Maine.

(2) Beneficiaries

Primary Intended Beneficiaries — Businesses investing in qualifying business property in Maine.

(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) below 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;	B, C, G 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, B, 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, I, D 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;	B, D, E, F 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 expenditure is coordinated with, complementary to or duplicative of federal bonus depreciation or other similar initiatives;	Qualitative
8) The extent to which the tax expenditure is a cost-effective use of resources; and	C, F, G, H Qualitative
9) 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.

A	# Total businesses receiving any benefits under the MCIC
B	Total $ value of MCIC tax credits received by businesses (direct tax revenue lost)
C	Total direct program cost (credits plus administrative costs)
D	Average tax benefit per business, including min & max
E	Estimated value of eligible property associated with MCIC claims
F	Indicators of changes in the timing of business investments in qualifying business property
G	Net impact on State budget (using economic modeling, as possible and appropriate, to include indirect benefits and costs)
H	Indicators of economic growth associated with the program since its enactment (such as change statewide employment or GDP – using economic modeling, as possible and appropriate, to include capture of indirect benefits and costs)
I	Participation rate: comparison of number of businesses claiming MCIC to number of businesses filing taxes in the state

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,
- by firm size.