Responses to Committee Questions RE: Paper Manufacturing Credit Report Presentation on 9.16.24

- **Are there any statutory provisions to prevent the equipment purchased with the Paper Manufacturing Credit's qualified investment from being uninstalled, moved or sold?**

  OPEGA asked DECD and MRS whether they were aware of any provisions in statute prohibiting a business from selling, or uninstalling, equipment that was purchased as part of a qualified investment for the Paper Manufacturing Credit. Both MRS and DECD responded that they are not aware of any such provisions.

- **Did OPEGA consider any other competitiveness factors, besides tax competitiveness, for a business in the paper manufacturing industry?**

  One of the performance measures in statute, and approved by the GOC, for evaluating the Paper Manufacturing Credit required OPEGA to assess the "the increase in the vitality and competitiveness of the State's paper industry in the marketplace." OPEGA notes in the report that industry competitiveness involves many factors, such as the regional cost of labor, taxes and energy. In our analysis of competitiveness, we focused on the state tax environment, noting that this is the factor states are typically seeking to influence via tax incentives for businesses.

  OPEGA found that the Paper Manufacturing Credit does allow a business that can access it to achieve tax competitiveness consistent with that available in comparison states. However, our report also notes that the benefits from the Paper Manufacturing Credit are limited to the one user able to access the credit, which could put other Maine paper manufacturers at a disadvantage if they cannot access a comparable incentive.

- **Why did OPEGA compare the Paper Manufacturing Credit with the Dirigo Business Incentive when they are structured quite differently?**

  OPEGA analyzed the value available from the Dirigo Business Incentive in an effort to provide information about other benefits that may be available to paper manufacturers without access to the Paper Manufacturing Credit.

  Under 36 MRS §5219-AAA, Dirigo provides for a tax credit for qualified businesses for tax years beginning on or after January 1, 2025. The value of the credit is equal to:

  - 10% of eligible capital investment placed in service outside of Cumberland, Sagadahoc and York counties; or
  - 5% of eligible capital investment placed in service in Cumberland, Sagadahoc and York counties;

  And

  - $2,000 for each qualified employee engaged in a qualified business-provided employee training program completed in the tax year.

  The Dirigo Business Incentive is limited to $2 million per year and up to $500,000 is refundable per year, per business. Unused credit can be applied to offset tax liabilities in the subsequent four tax years. There is no lifetime cap on the credit.

  EY compared the value of the Paper Manufacturing Credit versus the Dirigo Business Incentive to a hypothetical Maine paper manufacturer and explained in their report why the Paper Manufacturing Credit has a larger impact on the hypothetical business's effective tax rate (ETR):

For the paper manufacturer, the PAPER credit has a greater impact on ETR than the Dirigo incentive because it provides a larger refund in the first 10 years of operations. The higher cash flows due to the PAPER credit in the first 10 years increases the post-tax cash flow IRR and reduces the state and local tax effect (ETR in our analysis). The higher refund ($1.6 million with PAPER compared to $500,000 for Dirigo) is better for the PAPER firm even with the timing differences (10 years credit for PAPER and indefinite credit for Dirigo).

- **Is information about developments over time in the expected fiscal impacts from individual tax credits provided to the Revenue Forecasting Committee for use in its revenue forecasts?**

  OPEGA consulted with the Director of OFPR on this matter. Our understanding is that this would be addressed in OFPR, MRS, and Revenue Forecasting Committee monthly monitoring of actual revenue performance vs. budget and fiscal note assumptions, and also in the preparation for the two revenue forecast updates each year. While tax expenditures are not necessarily a stand-alone item, variations in assumptions made in budgets and/or in fiscal notes regarding a tax expenditure would be noted and discussed. If more detail is needed about this process, OPEGA can seek a formal response from the Revenue Forecasting Committee.