Executive Summary

OPEGA Evaluation of the Credit for Paper Manufacturing Facility Investment

About the Credit for Paper Manufacturing Facility Investment

The Credit for Paper Manufacturing Facility Investment (Paper Manufacturing Credit) was enacted in 2021 under Title 36 §5219-YY and may be claimed beginning in tax year 2024. It is a refundable income tax credit of up to $16M over 10 years for a business that makes a qualifying investment of $40M in a Maine paper manufacturing facility. The annual credit amount is 4% of the qualifying investment, capped at $1.6M. The Department of Economic and Community Development (DECD) and Maine Revenue Services (MRS) jointly administer the credit, and both agencies' administrative costs are small enough to absorb within existing resources.

The Paper Manufacturing Credit Is Accessible by One Business

Although statute does not explicitly limit the number of users of the credit, OPEGA found that only one business in Maine can qualify. Maine has several paper manufacturers, but only Twin Rivers Paper Company (Twin Rivers) meets all of the requirements for the Paper Manufacturing Credit. In addition, the window for qualifying investment for the credit closed on December 31, 2023, so no further investment can qualify even if another paper manufacturer were able to meet the credit's statutory requirements in the future.

Job Retention and Investment Have Occurred; It's Unclear How Much Is Due to the Credit

Job retention and investment by the credit's sole user have met statutory minimums. However, it is unclear how the Paper Manufacturing Credit impacted the timing, magnitude, or nature of the company's employment and investment decisions. Assessing the impact of incentives on behavior is difficult because many factors influence business decisions, and the relative importance of these factors may not be visible from outside the company.

That said, the Paper Manufacturing Credit offers a substantial discount on a company's qualifying investment–up to 40% in total. A cost reduction of this magnitude is more likely to impact a business's investment decisions and its ability to be competitive within its industry. Effective tax rate analysis shows that Maine's tax environment for a business that can access the Paper Manufacturing Credit is competitive with comparison states but is less so without the credit. Since this increase in tax competitiveness is only available to the credit's one user, other Maine paper manufacturers could be at a disadvantage in the marketplace if they cannot access comparable tax incentives.

Recommendations from OPEGA's Evaluation

Because the period for qualifying investment under the Paper Manufacturing Credit has passed, no future applications for initial certificates of approval are expected. Consequently, OPEGA did not consider opportunities to improve that process. Instead, our recommendations focus on how design of similar future incentives might be improved and how ongoing data collection and reporting can be strengthened to better support oversight.

Recommendations for Legislative Consideration	
1	The Legislature May Want to Consider Other Tools for Providing Incentives to Single Entities in the Future
2	The Legislature May Want to Consider Approaches to Increase Transparency Around Use of Multiple Incentives
3	Clarification of One Measure for Evaluating the Credit May Be Needed
Recommendations for Program Administrators	
4	DECD Should Take Additional Steps to Confirm Compliance with Requirements for Job Quality
5	DECD Should Include Additional Information in Annual Reports to Allow Legislators to Monitor Fiscal Impact Developments