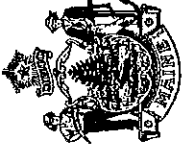


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State of Maine
ONE HUNDRED AND TWENTY-EIGHT LEGISLATURE
COMMITTEE ON TAXATION

DATE: April 10, 2017

TO Sen. James Hamper, Senate Chair
Rep. Drew Gattine, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

FROM: Sen. Dana Dow, Senate Chair
Rep. Ryan Tipping, House Chair
Members, Joint Standing Committee on Taxation

RE: Report back on the Biennial Budget, LD 390, LR 2175

The Joint Standing Committee on Taxation is pleased to provide the attached addendum to the information we provided last week regarding the provisions of the Biennial Budget assigned to our committee for review. The attached addendum contains our recommendations on the items that were listed on last week's report as "Tabled." The tabled items are related to income tax rates, the 3% surcharge, sales tax and service provider tax base expansions and a proposed change to the treatment of sales tax exemptions for certain nonprofit entities.

We hope this information is helpful to you. Please let us know if you have questions. We will be available to assist you in any way we can regarding the issues subject to review by our Committee.

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Part Page# ¹	Current law	Budget proposal	Fiscal impact (DAFS info)	Taxation Committee recommendations	
SALES TAX					
PART E p. 35					
E-6 to E-15 p. 38 to 44	4. Sales tax base A. Tangible personal property B. Products transferred electronically C. Rental of lodging D. Transmission and distribution of electricity E. Rental or lease of automobile, pickup truck or van F. Extended service contract on an automobile or truck G. Prepaid calling service	4. Sales tax base 1. Expands base to include the following services beginning 1/1/18: (Expansions are very similar to proposals contained in the 2015 biennial budget proposal but with some changes)	Total (includes services separately identified below) \$16,974,512 <u>FY 2019-20</u> \$71,689,435	Total (includes services separately identified below) \$69,530,308 <u>FY 2020-21</u> \$73,938,736	DIVIDED 7 members recommend removing the sales tax base expansions from the budget 5 members recommend inclusion of the sales tax base expansions in the budget If sales tax base expansions are included in the budget some technical language clarifications may be necessary.
		1. Recreation and amusement services		FY 19 \$22,393,250	
		2. Installation, repair and maintenance services except those sold to a business for business use		FY 19 \$1,150,000	
		3. Personal services		FY 19 \$28,811,500	
		4. Household services		FY 19 \$16,114,350	
		5. Personal property services except those sold to a business for business use			
E-26 p. 46	6. Many sales tax exemptions for nonprofit organizations	6. Exemption changes Provides that sales tax exemptions for entities whose exemptions are based on charitable, nonprofit or other public purposes do not apply to purchases of prepared food, lodging or motor vehicle rental;	MRS estimate Approximately \$75,000 annually		OUT 11-0 If this provision is included in the budget, the language will need clarification.

¹ Page #s refer to page # of 230 pages in the language provisions submitted as part of the Governor's budget.

SERVICE PROVIDER TAX

Part E	Current law	Budget proposal	FY 2017-18	FY 2017-18	
E-22 E-23 p. 45 to 46	<p>2. Service provider tax base Service provider tax is a tax at the rate of 6% on the following services:</p> <p><u>Revenue to GF (FY 16 \$44,916,959):</u></p> <ol style="list-style-type: none"> 1. Cable and satellite TV and radio 2. Fabrication services 3. Rental of video media and equip. 4. Rental of furniture, audio media and equip. 5. Telecommunication services 6. Installation, maintenance or repair telcom equipment 7. Ancillary telcom services <p><u>Revenue to Medicaid match fund (FY 16 \$40,128,998)</u></p> <ol style="list-style-type: none"> 1. Private nonmed institution services (PNMIs) 2. Community support servs (mental health) 3. Community support servs (intellectual disabil/autism) 4. Home support services 5. Group residential servs (brain injuries) <p>Tax is imposed on provider but may be passed on and separately stated to consumer.</p>	<p>2. Service provider tax base expanded</p> <p><u>Adds (presumably to GF revenue portions):</u></p> <ol style="list-style-type: none"> 1. Sale of <u>access to streaming video or audio content</u>, whether single use or by subscription, to an end user that does not have the right of permanent use granted by the seller, and in the case of a subscription, the right of access is contingent on continued payment by the purchaser. 2. <u>Guided recreation</u> (other than hunting and fishing), tours and rides for recreation and amusement as opposed to passenger transportation. <p>Effective 1/1/18</p>	<p>\$139,250</p> <p><u>FY 2019-20</u> \$563,000</p>	<p>\$554,000</p> <p><u>FY 2020-21</u> \$572,000</p>	<p>DIVIDED</p> <p>7 members recommend removing the service provider tax base expansions from the budget</p> <p>5 members recommend inclusion of the service provider tax base expansions in the budget</p> <p>If service provider tax expansions are included in the budget, language will be needed to provide that revenue from new services accrues to the General Fund</p>

Part Page# ²	Current law	Budget proposal	Fiscal impact (DAFS info)		Taxation Committee recommendations																										
INCOME TAX/ESTATE TAX																															
Part D	Current law	Budget proposal	FY2017-18 ³	FY2018-19																											
D-2 to D 9 Page 22	Individual income tax brackets, rates Rates and brackets (not incl. 3% surcharge) Single individuals* (2017+ tax years) <table border="0"> <tr> <td><u>Income</u></td> <td><u>Marginal rate</u></td> </tr> <tr> <td>\$0 to \$21,049</td> <td>5.8%</td> </tr> <tr> <td>\$21,400 to \$49,999</td> <td>6.75%</td> </tr> <tr> <td>\$50,000 or more</td> <td>7.15%</td> </tr> </table>	<u>Income</u>	<u>Marginal rate</u>	\$0 to \$21,049	5.8%	\$21,400 to \$49,999	6.75%	\$50,000 or more	7.15%	Individual income tax brackets, rates Rates and brackets (not including 3% surcharge) Single individuals* (2018 and 2019 tax years) <table border="0"> <tr> <td><u>Income</u></td> <td><u>Marginal rate</u></td> </tr> <tr> <td>\$0 to \$21,049</td> <td>2.75%</td> </tr> <tr> <td>\$21,050 or more</td> <td>3.15%</td> </tr> </table> (2020+ tax years) Rate is 2.75% on all taxable income	<u>Income</u>	<u>Marginal rate</u>	\$0 to \$21,049	2.75%	\$21,050 or more	3.15%	(\$267,810,400)	(\$305,344,000)	DIVIDED <u>6 members</u> recommend <u>repealing the 3% surcharge</u> and <u>reducing individual income tax rates</u> as follows <table border="0"> <tr> <td><u>Income</u></td> <td><u>Marginal rate</u></td> <td></td> </tr> <tr> <td>\$0 to \$21,049</td> <td>5.8%</td> <td><u>5.75%</u></td> </tr> <tr> <td>\$21,400 to \$49,999</td> <td>6.75%</td> <td><u>6.49%</u></td> </tr> <tr> <td>\$50,000 or more</td> <td>7.15%</td> <td><u>6.99%</u></td> </tr> </table> The proponents of this proposal believe that the revenue generated above the budget proposal will cover the cost of changes that the Committee has previously recommended to increase the homestead exemption with an additional \$100,000,000 to cover increasing education funding or other priorities. <u>6 members</u> recommend making <u>no changes to current law</u> – retain 3% surcharge and current income tax rates as is.	<u>Income</u>	<u>Marginal rate</u>		\$0 to \$21,049	5.8%	<u>5.75%</u>	\$21,400 to \$49,999	6.75%	<u>6.49%</u>	\$50,000 or more	7.15%	<u>6.99%</u>
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	* Multiply bracket amounts by 2 for individuals filing “married joint” returns and 1.5 for heads of households		FY 2019-20 (\$351,066,400)	FY 2018-19 (\$414,308,000)																											
D-1 D-10 p. 22, 24	1. 3% surcharge on taxable income over \$200,000 in each filing status beginning with 2017 tax years 2. Revenue from surcharge goes to dedicated fund for education funding	1. <u>3% surcharge</u> is delayed until 2018 tax years <u>AND</u> <u>1A.</u> Applied to all taxpayers -- not just those with taxable income exceeding \$200,000 2. Revenue from surcharge goes to General Fund Education Fund remains but without source of revenue 3. Repeals provision indicating that surcharge must be imposed regardless of whether IT brackets are changed. 4. Surcharge is applied to fiduciary taxpayers (trusts and estates) to conform to parallel treatment under current law.																													

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² Page #s refer to page # of 230 pages in the language provisions submitted as part of the Governor’s budget.

³ General Fund impact (unless otherwise noted). Parentheses indicate loss of revenue. Lack of parentheses indicates GF revenue gain.