

AT A GLANCE

Maine Capital Investment Credit (MCIC) – A Complicated Response to Federal Bonus Depreciation that is Unlikely to Significantly Encourage Capital Investment in Maine



About the Maine Capital Investment Credit

The Maine Capital Investment Credit (MCIC) is a personal and corporate income tax credit for depreciable property, such as equipment and buildings, placed in service in Maine. The credit may be taken by Maine taxpayers who claimed bonus depreciation on their federal income tax returns under section 168(k) of the Internal Revenue Code (IRC). Only assets placed in service in Maine are eligible for MCIC. The credit is non-refundable and may be carried forward for up to 20 years. MCIC was enacted in 2011 and is administered by Maine Revenue Services (MRS) in accordance with Title 36 §5219-NN.

When the federal government makes changes to the IRC, states must choose how to handle these changes. When states conform to IRC changes, businesses can benefit at the state level from the financial value of any federal incentives. Additionally, when state and federal tax codes are aligned, filing taxes can be less labor intensive for businesses. Maine does not conform with federal bonus depreciation, but created MCIC as a compromise of sorts. The credit, along with associated tax modifications, is Maine's way of approximating the value of bonus depreciation for Maine taxpayers, but only for assets placed in service within the state.

Program Intent: to stimulate the Maine economy by encouraging businesses to expedite capital investments in Maine.

Program Goal: to encourage businesses to expedite purchases of qualifying business property in Maine.

MCIC is Not Likely to Significantly Impact Capital Investment in Maine

The effect of bonus depreciation on business investment has been well-studied. In general, business investment decisions are more likely to be driven by economic conditions and short-term sales and earnings outlooks than by tax considerations. Even when tax considerations are weighed, studies of federal bonus depreciation generally have found it provides only a modest impact, if any, on business investment decisions. MCIC is likely to have even less impact because it provides less tax value than the federal bonus incentive—the credit for tax year 2020 provides a discount of roughly 1% on the cost of an asset. Considering the research on bonus depreciation and the modest value of the MCIC credit, OPEGA finds that MCIC is unlikely to accomplish its goal of encouraging businesses to expedite capital investments in Maine to any significant degree.

OPEGA also finds that Maine's unique approach to bonus depreciation—via MCIC—seems unlikely to encourage businesses to invest in Maine over other states. MCIC allows businesses to access some of the financial value of conformity to bonus depreciation, but provides none of the tax simplicity that businesses find desirable. The current iteration of MCIC involves ongoing tax modifications and the need to keep two sets of tax records for the life of an asset on which bonus depreciation was claimed. The credit's combination of a low value incentive with complexity required of taxpayers does not appear to make the state a more attractive place for investment.