AT A GLANCE

OPEGA Evaluation of BETR & BETE – Programs Lower the Cost of Owning Business Equipment but May Have Limited Influence on Capital Investment Decisions

About BETR and BETE

Maine's Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) are State programs that reduce or eliminate municipal property taxes on qualifying business equipment. Under BETR, the State directly reimburses businesses for property taxes paid to municipalities. Under BETE, the State instead exempts businesses from paying property taxes for qualified equipment. The State then compensates municipalities for a portion of the tax revenue they lost the opportunity to collect.

BETR and BETE are concurrently administered, primarily by Maine Revenue Services (MRS), but with a reliance on municipal assistance. The majority of business assets in Maine are eligible for one of the two programs. Eligibility depends on when the asset was put into service and which type of business owns it – determining eligibility can sometimes be challenging.

Programs' Intent:

To overcome the disincentive to growth of capital investment in Maine stemming from the high cost of owning business property, thereby promoting the general welfare of the people of the State of Maine

Programs' Goals:

To reduce the cost of owning business property in Maine, particularly in comparison to other relevant states and countries

To encourage growth of capital investment by businesses in Maine

Primary Intended Beneficiaries:

Businesses investing in qualifying property

Secondary Intended Beneficiaries:

The people of the State of Maine

Program outcomes are mixed in relation to goals

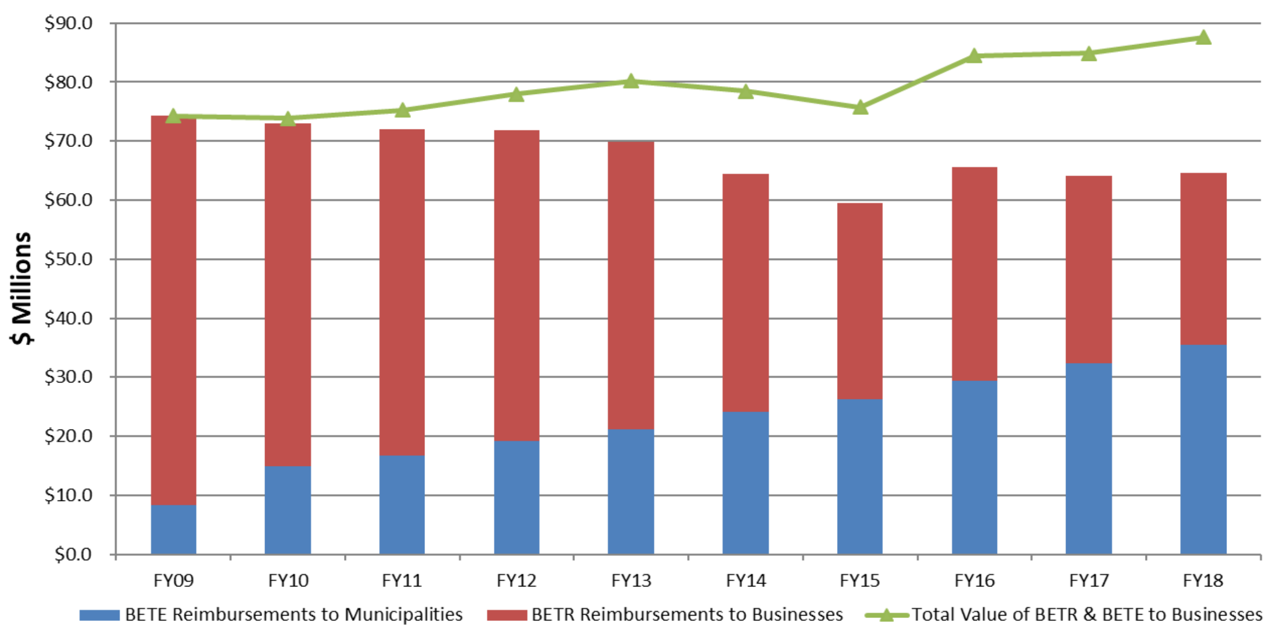
OPEGA finds that BETR and BETE accomplish their shared goal of reducing the cost of owning business property in the State. The programs do this by essentially eliminating property tax on qualifying equipment. In FY18, the State provided $29.1 million in BETR reimbursements to businesses. In that year, businesses were exempt from paying $58.5 million in personal property taxes on eligible equipment.

It is less clear whether the programs meet their other shared goal of encouraging the growth of capital investment in Maine. OPEGA finds that the programs' impact on capital investment is likely marginal, as evidenced by the fact that relatively few businesses receive financially significant benefits. In FY18, just 8% of all BETR-businesses received 75% of the total reimbursements distributed that year – with their average benefit being $202,604. The average benefit for the remaining 92% was $5,611. This average for all BETR assets claimed per business. Because property taxes are the basis for benefits under both programs, OPEGA assumes a similar distribution of benefits exists among BETE businesses. Given that personal property taxes are not reported to be a primary factor influencing the purchase of business equipment and the low-to-moderate amount of the benefit received by most businesses, BETR and BETE likely have a limited effect, if any, on capital investment decisions.

Total State costs have declined while total benefits to businesses have increased

Statutory shifts in program eligibility have driven the total value of benefits under BETE to increase while those under BETR have decreased. Despite the decrease, combined benefits provided under the programs have increased $13.3 million between FY09 and FY18. Over the same period, state reimbursements for the programs combined have dropped by $9.7 million. The State has been able to provide increased benefits to businesses at a lower cost because all of the increased benefits have been under BETE, and BETE benefits cost the State less to provide.

Total Value of BETR & BETR to Businesses in Maine Compared to the Cost of State Reimbursements FY09 Through FY18



Source: Analysis of Data Supplied to OPEGA by Maine Revenue Services

BETE can have substantial impacts on municipalities

Because BETR and BETE are state programs embedded in a municipal function – taxation of personal property – municipal impacts are unavoidable. The impacts of BETR on a municipality are minor because businesses are reimbursed directly by the state. The impacts of BETE are more significant because BETE exempts businesses from paying personal property taxes on eligible assets in the first place – removing the municipality's authority to collect that potential revenue. The Constitution of Maine and some elements of BETE's statutory design, provide that municipalities are compensated for lost authority to collect revenue – although only partially. In total, in FY18, the State reimbursed municipalities for 61% of property taxes that could not be collected due to BETE.

Municipal administration mandated under BETE can also be labor-intensive and time-consuming. Since BETE's enactment, municipalities have been paid by the state at a rate of $2 per application. OPEGA finds this rate to be inadequate to cover 90% of local costs as required by the Constitution of Maine.