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STATE OF MAINE
ONE HUNDRED AND THIRTIETH LEGISLATURE
COMMITTEE ON TAXATION

May 25, 2021

TO: Sen. Catherine Breen, Senate Chair
Rep. Teresa Pierce, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

FROM: Se. Benjamin Chipman, Senate Chair
Rep. Maureen Terry, House Chair
Members, Joint Standing Committee on Taxation

RE: Change Package Second Supplemental Budget Bill

The Joint Standing Committee on Taxation has reviewed the portions of the change package to the second supplemental budget bill that fall under the policy jurisdiction of the Taxation Committee. We are pleased to provide you with our report of recommendations regarding the budget. The attached charts indicate our votes with regard to each line in Part A and each Part in the language provisions of the bill that relates to policy issues under the jurisdiction of the Taxation Committee..

Please let us know if there is any other information we can provide.

PROVISIONS IN THE SUPPLEMENTAL BUDGET CHANGE PACKAGE 5/24/21

jsj/OFPR

TAXATION COMMITTEE

	Page numbers refer to hand written circled page numbers on attached materials	Background	Budget proposal See budget materials	Change package(Should there be such a thing)	Recommendation
PART A DAFS					
1	Tree Growth Tax Law reimbursement p. 1	Funds proposal to adjust reimbursement formula in Part J			
	Initiative	Provides necessary reimbursement to meet statutory requirement to reimburse municipalities	FY 22 $2,900,000 FY 23 $3,200,000		Committee supports 11-0
2	Disproportionate Tax Burden Fund p. 2	Allocates funds for revenue sharing to municipalities with property tax rates exceeding 10 mills (RevSh 2) SEE PART G <u>Current law</u> transfer to Revenue Sharing: FY 21, FY 22 and FY 23 3.75%; FY 24+, 5%)PL 2021, c. 29) Part G changes FY 22 to 4.5% and FY 23+ 5%			
	Initiative		$12,817,562 FY 22 $18,555,744 FY 23		Committee votes 11-0 to recommend that revenue sharing percentage be increased to 5%

jsj/OFPR

	Page numbers refer to hand written circled page numbers on attached materials	Background	Budget proposal See budget materials	Change package(Should there be such a thing)	Recommendation
					beginning July1, 2021
3	State-Municipal Revenue Services p. 3	Allocates funds for revenue sharing to all municipalities (RevSh 1) SEE PART G <u>Current law</u> transfer to Revenue Sharing: FY 21, FY 22 and FY 23 3.75%; FY 24+, 5%)PL 2021, c. 29) Part G changes FY 22 to 4.5% and FY 23+ 5%			
	Initiative		Adjusts allocations to be in line with available projected resources $23,238,070 FY 22 $46,190,803 FY 23		**Committee votes 11-0 to recommend that revenue sharing percentage be increased to 5% beginning July1, 2021**

LANGUAGE PARTS

	Current law	Budget proposal	MRS estimated fiscal impact	Change package	Recommendation
PART F PROPERTY TAX RELIEF FUND FOR MAINE RESIDENTS replacement p.4	ORIGINAL BILL repeals the Property Tax Relief Fund and transfers fund to GRF unappropriated surplus, the budget Stabilization and the Capital Construction and Improvements Fund SUPPLEMENTAL: Deletes PREVIOUS PART F and replaces it with transfer to Highway Fund				**Committee supports 11-0**
PART H MISCELLANEOUS TAX PROVISIONS p.6	ORIGINAL BILL: Expands Service Provider Tax to digital streaming SUPPPLEMENTAL: deletes service provider tax expansions. Substitutes miscellaneous tax provisions				
		Income tax conformity date is changed from 12/31/21 to 4/30/21	FY 22 ($16,940,000) FY 23 ($1,084,000)		**Committee supports 11-0**
		Sales tax exemption for menstrual products (10/1/21)	FY 22 ($545,000) FY 23 ($740,000)		**Committee supports 11-0**
		Temporary increase in Earned Income Tax Credit (TY 21 only)	FY 22 ($19,675,000)		**Committee supports 11-0**

		Increase in Property Tax Fairness Credit	FY 22 ($4,100,000) FY 23 ($18,210,000)		Committee supports 11-0
PART G REVENUE SHARING p. 5	ORIGINAL BILL: Maintains the % of revenue from sales tax, income tax and certain portions of the service provider tax at 3.75% in FY22 and FY23. % would return to 5% in FY 24. (PL 2021, c.29) SUPPLEMENTAL: Increases % of revenue to 4.5% in FY 22, 5% in FY 23				
			FY 22 ($29,685,369) FY 23 ($51,518,511)		Committee votes 11-0 to recommend that revenue sharing percentage be increased to 5% beginning July1, 2021
PART J TREE GROWTH TAX REIMBURSEMENT p.9	Removes old language no longer needed Clarifies calculation reimbursement to municipalities for tree growth classified acres				
			(From Part A) FY 22 $2,900,000 FY 23 $3,200,000		Committee supports 11-0

jsj/OFPR

PART P PROMOTION ADJUSTMENTS p.11	Allows for promotional adjustments of Tax Examiner and Tax Examiner II positions within the Bureau of Revenue Services				
			Transfer from salary plan: FY 22 $520,000 FY 23 $520,000		**Committee supports 11-0**

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Please ADD the following to Part A. Section 1 of LD 221 as follows:

ministrative and Financial Services, Department of

TREE GROWTH TAX REIMBURSEMENT 0261

		2021-22	2022-23
Initiative: Provides the necessary funding to meet projected municipal reimbursement requirements under the Tree Growth Tax law.			
GENERAL FUND			
All Other		2,900,000	3,200,000
	Total	2,900,000	3,200,000

Language
PT J

1

Please AMEND Part A, Section 1 of LD 221 as follows:

easurer of State, Office of

lease amend as follows:

CURRENT

DISPROPORTIONATE TAX BURDEN FUND 0472

		2021-22	2022-23
Initiative: Adjusts funding for Municipal Revenue Sharing to bring allocations in line with projected available resources for fiscal year 2022-23.			
OTHER SPECIAL REVENUE FUNDS			
All Other		5,645,019	6,902,569
	Total	5,645,019	6,902,569

REVISED

DISPROPORTIONATE TAX BURDEN FUND 0472

		2021-22	2022-23
Initiative: Adjusts funding for Municipal Revenue Sharing to bring allocations in line with projected available resources for fiscal year 2022-23.			
OTHER SPECIAL REVENUE FUNDS			
All Other		12,817,562	18,555,744
	Total	12,817,562	18,555,744

2

Please AMEND Part A, Section 1 of LD 221 as follows:

easurer of State, Office of

Please amend as follows:

CURRENT

STATE - MUNICIPAL REVENUE SHARING 0020

		2021-22	2022-23
Initiative: Adjusts funding for Municipal Revenue Sharing to bring allocations in line with projected available resources for fiscal year 2022-23.			
OTHER SPECIAL REVENUE FUNDS			
All Other		(5,452,100)	(421,901)
	Total	(5,452,100)	(421,901)

REVISED

STATE - MUNICIPAL REVENUE SHARING 0020

		2021-22	2022-23
Initiative: Adjusts funding for Municipal Revenue Sharing to bring allocations in line with projected available resources for fiscal year 2022-23.			
OTHER SPECIAL REVENUE FUNDS			
All Other		23,238,070	46,190,803
	Total	23,238,070	46,190,803

3

orig F repeal of PTRF

Amend LD 221 Part F by deleting the current Part and replacing with the following:

PART F

Sec. F-1. Transfer to the Highway Fund. Notwithstanding any other provision of law to the contrary, on or before June 30, 2022, the State Controller shall transfer $18,000,000 from the unappropriated surplus of the General Fund to unallocated fund balance of the Highway Fund.

PART F
SUMMARY

This Part transfers $18,000,000 unallocated fund balance of the Highway Fund.

4

Amend LD 221 Part G by deleting the current Part and replacing with the following:

PART G

Sec. G-1. 30-A MRSA §5681, sub-§5, as amended by PL 2021, c. 29, Part F §1 is further amended to read:

5. Transfers to funds. No later than the 10th day of each month, the State Controller shall transfer to the Local Government Fund 5% of the receipts during the previous month from the taxes imposed under Title 36, Parts 3 and 8, and Title 36, section 2552, subsection 1, paragraphs A to F and L, and credited to the General Fund without any reduction, except that for fiscal years 2015-16, 2016-17, 2017-18 and 2018-19 the amount transferred is 2%, except that for fiscal year 2019-20, the amount transferred is 3%, ~~and~~ except that for fiscal years 2020-21, ~~2021-22, and 2022-23~~ the amount transferred is 3.75%, and except that for fiscal year 2021-22 the amount transferred is 4.5% of the receipts during the previous month from the taxes imposed under Title 36, Parts 3 and 8, and Title 36, section 2552, subsection 1, paragraphs A to F and L, and credited to the General Fund without any reduction, and except that the postage, state cost allocation program and programming costs of administering state-municipal revenue sharing may be paid by the Local Government Fund. A percentage share of the amounts transferred to the Local Government Fund each month must be transferred to the Disproportionate Tax Burden Fund and distributed pursuant to subsection 4-B as follows:

C. For months beginning on or after July 1, 2009 but before July 1, 2010, 15%;

D. For months beginning on or after July 1, 2010 but before July 1, 2011, 16%;

E. For months beginning on or after July 1, 2011 but before July 1, 2012, 17%;

F. For months beginning on or after July 1, 2012 but before July 1, 2013, 18%;

G. For months beginning on or after July 1, 2013 but before July 1, 2014, 19%; and

H. For months beginning on or after July 1, 2014, 20%.

PART G
SUMMARY

This Part sets the transfer to the Local Government Fund at 4.5% in fiscal year 2022 and 5% in fiscal year 2023.

orig Part H Digital SPT

Amend LD 221 Part H by deleting the current Part and replacing with the following:

PART H

Sec. H-1. 36 MRSA §111, sub-§1-A, as amended by PL 2021, c. 1, §B-1, is further amended to read:

1-A. Code. "Code" means the United States Internal Revenue Code of 1986 and amendments to that Code as of ~~December 31~~ April 30, ~~2020~~ 2021.

Menstrual prods

Sec. H-2. 36 MRSA §1752, sub-§6-J is enacted to read:

6-J. Menstrual product. "Menstrual product" means tampons, panty liners, menstrual cups, sanitary napkins and other similar tangible personal property designed for feminine hygiene in connection with the human menstrual cycle.

Sec. H-3. 36 MRSA §1760, sub-§107 is enacted to read:

107. Menstrual products. Sales occurring on or after October 1, 2021 of menstrual products.

Sec. H-4. 36 MRSA §5219-S, sub-§1 as amended by PL 2015, c. 328, §8, are further amended to read:

25% w/o Q child
12% all other

1. Resident taxpayer. A resident individual who is an eligible individual is allowed a credit against the tax otherwise due under this Part in the amount of 25% of the federal earned income credit for the same taxable year for a resident eligible individual who does not have a qualifying child and 12% of the federal earned income credit for the same taxable year for all other resident eligible individuals. However, for taxable years beginning after December 31, 2020, and before January 1, 2022, a resident individual who is an eligible individual is instead allowed a credit against the tax otherwise due under this Part in the amount of 20% of the federal earned income credit for the same taxable year.

EITC

Sec. H-5. 36 MRSA §5219-S, sub-§2 as amended by PL 2015, c. 328, §8, are further amended to read:

2. Nonresident taxpayer. A nonresident individual who is an eligible individual is allowed a credit against the tax otherwise due under this Part in the amount of 25% of the federal earned income credit for the same taxable year for a nonresident eligible individual who does not have a qualifying child and 12% of the federal earned income credit for the same taxable year for all other nonresident eligible individuals, except that for taxable years beginning after December 31, 2020, and before January 1, 2022, 20% of the federal earned income credit for the same taxable year for all nonresident eligible individuals, multiplied by the ratio of the individual's Maine adjusted gross income, as defined in section 5102, subsection 1-C, paragraph B, to the individual's entire federal adjusted gross income, as modified by section 5122.

Sec. H-6. 36 MRSA §5219-S, sub-§3 as amended by PL 2015, c. 328, §8, are further

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amended to read:

3. Part-year resident taxpayer. An eligible individual who files a return as a part-year resident in accordance with section 5224-A is allowed a credit against the tax otherwise due under this Part in the amount of 25% of the federal earned income credit for the same taxable year for an eligible part-year individual who does not have a qualifying child and 12% of the federal earned income credit for the same taxable year for all other eligible part-year individuals, except that for taxable years beginning after December 31, 2020, and before January 1, 2022, 20% of the federal earned income credit for the same taxable year for all eligible part-year individuals, multiplied by a ratio, the numerator of which is the individual's Maine adjusted gross income as defined in section 5102, subsection 1-C, paragraph A for that portion of the taxable year during which the individual was a resident plus the individual's Maine adjusted gross income as defined in section 5102, subsection 1-C, paragraph B for that portion of the taxable year during which the individual was a nonresident and the denominator of which is the individual's entire federal adjusted gross income, as modified by section 5122.

Sec. H-7. 36 MRSA §5219-KK, sub-§2-B, as amended by PL 2019, c. 343, Pt. H, §6, is further amended to read:

2-B. Credit in 2020 ~~and after~~. For tax years beginning on or after January 1, 2020 and before January 1, 2021, a resident individual is allowed a credit against the taxes imposed under this Part equal to the amount by which the benefit base for the resident individual exceeds 5% of the resident individual's income. The credit may not exceed $750 for resident individuals under 65 years of age as of the last day of the taxable year or $1,200 for resident individuals 65 years of age and older as of the last day of the taxable year. In the case of married individuals filing a joint return, only one spouse is required to be 65 years of age or older to qualify for the $1,200 credit limitation. Married taxpayers filing separate returns do not qualify for the credit under this section.

Sec. H-8. 36 MRSA §5219-KK, sub-§2-C is enacted to read:

2-C. Credit in 2021. For tax years beginning on or after January 1, 2021 and before January 1, 2022, a resident individual is allowed a credit against the taxes imposed under this Part equal to the amount by which the benefit base for the resident individual exceeds 5% of the resident individual's income. The credit may not exceed $1,000 for resident individuals under 65 years of age as of the last day of the taxable year or $1,500 for resident individuals 65 years of age and older as of the last day of the taxable year. In the case of married individuals filing a joint return, only one spouse is required to be 65 years of age or older to qualify for the $1,500 credit limitation. Married taxpayers filing separate returns do not qualify for the credit under this section.

Sec. H-9. 36 MRSA §5219-KK, sub-§2-D, is enacted to read:

2-D. Credit in 2022 and after. For tax years beginning on or after January 1, 2022, a resident individual is allowed a credit against the taxes imposed under this Part equal to the amount by which the benefit base for the resident individual exceeds 4% of the resident individual's income. The credit may not exceed $750 for resident individuals under 65 years of age as of the last day of the taxable year or $1,200 for resident individuals 65 years of age and older as of the

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last day of the taxable year. In the case of married individuals filing a joint return, only one spouse is required to be 65 years of age or older to qualify for the $1,200 credit limitation. Married taxpayers filing separate returns do not qualify for the credit under this section.

Sec. H-10. Application. That section of this Part that amends Maine Revised Statutes, Title 36, section 111, applies to tax years beginning on or after January 1, 2021 and to any prior tax year as specifically provided by the United States Internal Revenue Code of 1986 and amendments to that Code as of April 30, 2021, except that amendments to that Code made by section 9042 of the American Rescue Plan Act of 2021, Public Law No. 117-2, do not apply to any tax year beginning after December 31, 2019, and before January 1, 2021.

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SUMMARY

PART H

Part H does the following:

- It updates references to the United States Internal Revenue Code of 1986 contained in the Maine Revised Statutes, Title 36 to refer to the United States Internal Revenue Code of 1986 as amended through April 30, 2021, for tax years beginning on or after January 1, 2021 and for any prior tax year as specifically provided by the United States Internal Revenue Code of 1986, as amended, except that amendments to that Code made by section 9042 of the American Rescue Plan Act of 2021, Public Law No. 117-2, do not apply to any tax year beginning after December 31, 2019, and before January 1, 2021.
- It provides a sales tax exemption on the purchase of menstrual products sold on or after October 1, 2021.
- It establishes the earned income tax credit rate for tax year 2021 for all eligible individuals as 20% of the federal earned income credit for the same taxable year.
- It increases the maximum property tax fairness credit for tax year 2021 to $1,000 for resident individuals under 65 years of age and $1,500 for resident individuals 65 years of age and older.
- It increases the property tax fairness credit for tax years 2022 and later to the amount by which the benefit base for the resident individual exceeds 4% of the resident individual's income with a maximum credit of $750 for resident individuals under 65 years of age and $1,200 for resident individuals 65 years of age and older.

8

Amend LD 221 Part J by deleting the current Part and replacing with the following:

PART J

Sec. J-1 36 MRSA § 578, sub-§ 1 as amended by PL 2017, c. 288, Pt. A, §31 is further amended to read:

§578. Assessment of tax

1. Organized areas. The municipal assessors or chief assessor of a primary assessing area shall adjust the State Tax Assessor's 100% valuation per acre for each forest type of their county by whatever ratio, or percentage of current just value, is applied to other property within the municipality to obtain the assessed values. Forest land in the organized areas, subject to taxation under this subchapter, must be taxed at the property tax rate applicable to other property in the municipality.

The State Tax Assessor shall determine annually the amount of acreage in each municipality that is classified and taxed in accordance with this subchapter. Each municipality is entitled to annual payments distributed in accordance with this section from money appropriated by the Legislature if it submits a completed ~~an~~ annual return in accordance with section 383 ~~and if it achieves the minimum assessment ratio established in section 327~~. The State Tax Assessor shall pay any municipal claim found to be in satisfactory form by October 15th of the year following the submission of the annual return. The total municipal reimbursement appropriation is calculated on the basis of 90% of the ~~per acre~~ tax ~~revenue~~ lost as a result of this subchapter. ~~For property tax years based on the status of property on April 1, 2008 and April 1, 2009, municipal reimbursement under this section is further limited to the amount appropriated by the Legislature and distributed on a pro rata basis by the State Tax Assessor for all timely filed claims.~~ For purposes of this section, "classified forest lands" means forest lands classified pursuant to this subchapter as well as all areas identified as forested land within farmland parcels that are transferred from tree growth classification pursuant to section 1112 on or after October 1, 2011. For the purposes of this section, the "tax lost" is the tax that would have been assessed, but for this subchapter, on the classified forest lands if they were assessed according to the current regional per acre undeveloped acreage land value ~~valuations~~ as determined for ~~used in the~~ state valuation purposes ~~then in effect~~, or according to the current local per acre ~~valuation on~~ undeveloped acreage land value as determined for state valuation purposes, whichever is less, minus the tax that was actually assessed on the same lands in accordance with this subchapter, and adjusted for the aggregate municipal savings in required educational costs attributable to the reduction in ~~reduced~~ state valuation as a result of this subchapter. A municipality that fails to achieve the minimum assessment ratio established in section 327 loses 10% of the reimbursement provided by this section for each one percentage point the minimum assessment ratio falls below the ratio established in section 327.

10% duplicate

MS

~~The State Tax Assessor shall adopt rules necessary to implement the provisions of this section. Rules adopted pursuant to this subsection are routine technical rules for the purposes of Title 5, chapter 375, subchapter 2-A.~~

9

C. The State Tax Assessor shall distribute reimbursement under this section to each municipality in proportion to the product of the reduced tree growth valuation of the municipality multiplied by the property tax burden of the municipality. For purposes of this paragraph, unless the context otherwise indicates, the following terms have the following meanings.

(1) "Property tax burden" means the total real and personal property taxes assessed in the most recently completed municipal fiscal year, except the taxes assessed on captured value within a tax increment financing district, divided by the latest state valuation certified to the Secretary of State.

(2) "Undeveloped land" means rear acreage and unimproved nonwaterfront acreage that is not:

(a) Classified under the laws governing current use valuation set forth in chapter 105, subchapter 2-A, 10 or 10-A;

(b) A base lot; or

(c) Wasteland.

(3) "Average value of undeveloped land" means the current regional per acre undeveloped acreage land value ~~valuations~~ as determined for ~~used in the~~ state valuation purposes ~~then in effect~~, or ~~according to~~ the current local per acre ~~valuation on~~ undeveloped acreage land value as determined for state valuation purposes, whichever is less.

(4) "Reduced tree growth valuation" means the difference between the average value of undeveloped land and the average value of classified forest lands ~~tree growth land~~ times the total number of acres of classified ~~as~~ forest lands ~~under this subchapter plus the total number of acres of forest land that is transferred from tree growth classification to farmland classification pursuant to section 1112 on or after October 1, 2011~~.

SUMMARY

PART J

The Part amends the tree growth tax law to clarify the information required to be used by the State Tax Assessor when calculating the tree growth appropriation and municipal reimbursements and to use consistent terms when referring to that information. It also removes a limitation which only applied to tax years 2008 and 2009, and removes a paragraph that is unnecessary because appropriate rulemaking authority already exists under 36 MRS §575.

10

Amend LD 221 Part P by deleting the current Part and replacing with the following:

PART P

Sec. P-1. Promotion Adjustments for Bureau of Revenue Services Employees. Allows 46 existing Tax Examiner positions and 33 existing Tax Examiner II positions to potentially promote to a new Tax Examiner III classification within the Bureau of Revenue Services. Individuals in the Tax Examiner classification will be required to demonstrate achievement of certain competency benchmarks in order to promote to the Tax Examiner II classification. Individuals in the Tax Examiner II classification will be required to demonstrate achievement of certain competency benchmarks in order to promote to the Tax Examiner III classification. When a Tax Examiner II or Tax Examiner III position is vacated, the position will revert back to the Tax Examiner classification. The changes will improve the ability of the Bureau of Revenue Services to attract and retain capable examiners in order to provide taxpayer assistance commensurate with the increasing complexity of federal and state tax laws.

Sec. P-2. Costs to General Fund. Costs to the General Fund due to section 1 of this Part must be provided from the Salary Plan program, General Fund account in the Department of Administrative and Financial Services in an amount up to $520,000 for the fiscal year ending June 30, 2022 and in an amount up to $520,000 for the fiscal year ending June 30, 2023 to implement the initiative in section 1 of this Part.

SUMMARY

PART P

The Part allows for promotional adjustments for Tax Examiner and Tax Examiner II positions within the Bureau of Revenue Services. This will improve the ability of the Bureau of Revenue Services to attract and retain capable examiners in order to provide taxpayer assistance commensurate with the increasing complexity of federal and state tax laws.

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