

**Information to Support 2018 Expedited Reviews  
of Maine State Tax Expenditures**

**“Charitable” and “Specific Policy Goal”  
Tax Expenditures**

**Prepared by**

**the Office of Program Evaluation and Government Accountability  
Pursuant to Title 3 Section 1000 sub-section 2**

**Submitted to**

**Joint Standing Committee on Taxation  
and  
Government Oversight Committee**

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## Overview

The Office of Program Evaluation and Government Accountability (OPEGA) is tasked by 3 M.R.S. § 1000(2) with providing information to support the Legislature’s Joint Standing Committee on Taxation in carrying out expedited reviews of certain Maine State tax expenditures<sup>1</sup>. The information OPEGA is required to provide includes:

- a description of the tax policy under review;
- descriptions of each tax expenditure associated with that policy, including the mechanism through which it is distributed and its intended beneficiaries;
- the legislative history of each tax expenditure; and
- the fiscal impact of the tax policy and each related tax expenditure, including past and future impacts.

As required by 3 M.R.S. § 998, the Legislature’s Government Oversight Committee (GOC), in consultation with the Taxation Committee, previously assigned each Maine State tax expenditure to one of three review categories: (a) full evaluation; (b) expedited review; (c) no review. Tax expenditures selected by the Committees for expedited review are those intended to implement broad tax policy goals that cannot be reasonably measured.<sup>2</sup> The 15 tax expenditures selected by the Committees for expedited review in 2018 include sales and use tax exemptions, exemptions from the service provider tax, exemptions from the gasoline tax and special fuel tax, and the tax expenditures associated with the Job Increment Financing Funds for redevelopment of the former Brunswick Naval Air Station and former Loring Air Force Base. The Job Increment Financing Funds are classified under the “Specific Policy Goal” tax policy area while the sales and use, service provider and fuel tax exemptions were classified under the policy area described as “Charitable.”

### **“Charitable” and “Specific Policy Goal/Mandate” Policy Areas: Definitions**

OPEGA’s 2015 Proposal for Legislative Review of Maine State Tax Expenditures defined the “Charitable” and “Specific Policy Goal/Mandate” policy areas.

- 1) *Charitable expenditures are expenditures which exempt charitable organizations from taxes. For purposes of this classification, charitable organizations include government, educational, nonprofit, religious, health care and other organizations that assist particular groups in need.*<sup>3</sup>
- 2) *Expenditures associated with Specific Policy Goals or Mandates support a specific public policy goal or action mandated by the State.*

OPEGA notes that the expenditures that were categorized under the “charitable” rationale in the 2015 proposal are diverse and do not share a common tax policy. Consequently, a concise description of how these expenditures relate to a single broad tax policy is not possible. To aid in categorizing the tax expenditures for evaluation by the Taxation Committee, OPEGA worked with the Office of Fiscal and

<sup>1</sup> As defined by 3 M.R.S. § 992 and 5 M.R.S. § 1666, “tax expenditures” means “those state tax revenue losses attributable to provisions of Maine tax laws that allow a special exclusion, exemption or deduction or provide a special credit, a preferential rate of tax or a deferral of tax liability.”

<sup>2</sup> 3 M.R.S. § 998(1)(B)

<sup>3</sup> OPEGA developed this definition based on 26 U.S. Code § 501(c)(3).

Program Review (OFPR) to classify the 2018 tax expenditures into groupings of similar exemptions. The groupings of expenditures described as “Charitable” are listed as:

- 1) Public Support for Government Organizations
- 2) Public Support for Certain Tax Exempt Organizations
- 3) Public Support for the Elderly
- 4) Public Support for Veterans’ Service Organizations
- 5) Public Support for Charitable Donations

The tax policy area described as “Specific Policy Goal/Mandate” remains as:

- 6) Support for a Specific Policy Goal/Mandate

The 15 tax expenditures in the 2018 cohort are grouped by category in Table 1.

<b>Category</b>	<b>No.</b>	<b>Expenditures</b>
Public Support for Government Organizations	1	Tax Exemption on Sales to the State and Political Subdivisions of the State
	2	Exemption from the Gasoline Tax for State and Local Governments
	3	Exemption from the Special Fuel Tax for State and Local Governments
Public Support for Certain Tax Exempt Organizations	4	Tax Exemption on Sales of Tangible Goods and Fabrication Services for Certain Construction Contracts with Certain Exempt Organizations
	5	Sales Tax Exemption for Certain Qualified Snowmobile Trail Grooming Equipment
	6	Exemption from Sales and Use Tax for Free Publications and Components of Publications
Public Support of the Elderly	7	Sales Tax Exemption for Meals for Residents of Certain Nonprofit Congregate Housing Facilities
	8	Sales Tax Exemption for Providing Meals for the Elderly
	9	Sales Tax Exemption for Meals Served by a Retirement Facility to its Residents
Public Support for Veterans’ Service Organizations	10	Sales and Use Tax Exemption for Certain Veterans’ Service Organizations
	11	Tax Exemption on Certain Sales by an Auxiliary Organization of the American Legion
Public Support for Charitable Donations	12	Use Tax Exemption on Returned Merchandise Donated to Charity
	13	Use Tax Exemption on Merchandise Donated from a Retailer’s Inventory to Exempt Organizations
Support for a Specific Policy Goal/Mandate	14	Job Increment Financing Fund – Brunswick
	15	Job Increment Financing Fund – Loring

Maine Revenue Services has noted to OPEGA that the “Exemption from Sales and Use Tax for Free Publications and Components of Publications” and the “Sales Tax Exemption for Meals Served by a Retirement Facility to its Residents” do not necessarily fit their view of the “Charitable” policy area. The Taxation Committee may wish to consider assigning a different policy area for these two expenditures in the next scheduled review of these expenditures.

**Fiscal Impact Estimates**

The fiscal impact estimates presented in this report represent estimated foregone revenue for the State. Maine Revenue Services (MRS) is required to prepare these estimates biennially based on the current tax law in effect at the time of the estimate. MRS uses various methods to estimate the foregone General Fund revenue loss. Most of the estimates reported here are also presented in the Maine State Tax Expenditure Reports. However, the Maine State Tax Expenditure Report combines the estimates of General Fund revenue loss due to the Job Increment Financing Funds (Brunswick & Loring) with the Employment Tax Increment Financing (ETIF) program. Consequently, OPEGA requested and received additional data from MRS which describes the estimates specific to the Brunswick and Loring Job Increment Financing.

The individual tax expenditure descriptions beginning on page 6 include MRS’ estimates of revenue loss by fiscal year (FY) with notation of the estimation method used and additional context.

	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
<b>“Charitable” Tax Policy</b>	<b>\$184,801,713</b>	<b>\$193,892,894</b>	<b>\$190,122,620</b>	<b>\$195,649,640</b>	<b>\$201,255,177</b>	<b>\$207,028,192</b>
Public Support for Government Organizations	\$179,408,772	\$187,874,351	\$183,760,251	\$189,158,207	\$194,717,740	\$200,443,702
Public Support for Certain Tax Exempt Organizations	\$3,943,726	\$4,511,969	\$4,637,372	\$4,678,568	\$4,720,618	\$4,763,539
Public Support for the Elderly	\$999,217	\$1,056,576	\$1,274,999	\$1,274,999	\$1,274,999	\$1,274,999
Public Support for Veterans’ Organizations	\$150,000	\$150,000	\$150,000	\$237,868	\$241,822	\$245,954
Public Support for Charitable Donations	\$299,999	\$299,999	\$299,999	\$299,999	\$299,999	\$299,999
<b>“Specific Policy Goal/ Mandate” Tax Policy</b>	<b>\$856,139</b>	<b>\$810,619</b>	<b>\$707,447</b>	<b>\$1,449,368</b>	<b>\$799,869</b>	<b>\$827,834</b>
<b>2018 Total</b>	<b>\$185,657,852</b>	<b>\$194,703,513</b>	<b>\$190,830,067</b>	<b>\$197,099,008</b>	<b>\$202,055,046</b>	<b>\$207,856,026</b>
Source: For tax expenditures under the “Charitable” tax policy estimates for FY14 & FY15 are from the 2016-2017 Maine State Tax Expenditure Report while the estimates for FY16 through FY19 are from the 2018-2019 Maine State Tax Expenditure Report. Where ranges are reported, the midpoint of the range is used. For expenditures under the “Specific Policy Goal/Mandate” tax policy the estimates were provided to OPEGA by MRS.						

Table 2 shows the total<sup>4</sup> estimated fiscal impact of the 15 tax expenditures as reported by MRS. These are grouped by tax policy and also by the categories described in the previous section of this report. It is evident from the table that the three expenditures grouped into the category of “Public Support for Government

<sup>4</sup> To derive the totals, the midpoint of the range is used where ranges are given; otherwise, the individual estimate is used.

Organizations” constitute the overwhelming majority of these 15 tax expenditures. Appendix B (page 24) shows the breakdown of the impact of each of the individual expenditures by year.

As can be seen in Appendix B, estimates for each of the 15 tax expenditures in this report are generally consistent across years. The most variation is seen in the Brunswick and Loring Job Increment Financing Fund amounts which involve a method of calculation based upon State income tax withholding from employees working for businesses operating within the former base areas.

### ***Information on Individual Tax Expenditures***

The remainder of this report contains a series of tables summarizing the information OPEGA is required to provide under 3 M.R.S. § 1000 for each individual tax expenditure. OPEGA gathered much of this information from the following sources:

- Sections of Maine statute pertaining to each exemption;
- MRS’ Maine State Tax Expenditure Reports for 2018-2019 and 2016-2017; and
- Direct request for tax expenditure information from MRS.

In addition, the legislative history summarized in this report was prepared by OPEGA in consultation with OFPR based on details researched and provided to OPEGA by the Law and Legislative Reference Library.

None of the sources we reviewed directly identified intended beneficiaries for these exemptions, so OPEGA has defined these based on our understanding of the expenditures.

MRS’ biennial reports are the source of the fiscal impact estimates OPEGA has included in this report for Fiscal Years 2014 through 2019. The estimates for FY14 and FY15 were published in the 2016-2017 Maine State Tax Expenditure Report. The estimates for FY16-FY19 were published in the 2018-2019 Maine State Tax Expenditure Report. The estimates for the Job Increment Financing Funds for Brunswick and Loring were calculated by MRS specifically for this report.

MRS told OPEGA they do not use these estimates to look at trends; rather, the numbers are “point in time” based on the economic forecast using the best information available at the time. Estimates are influenced by the anticipated tax rates; economic activity; policy changes; available data; and other factors. This makes it challenging to discern any trends or policy impacts over time using the revenue loss estimates published in the Maine State Tax Expenditures Reports. Consequently, MRS is unable to determine the amount of impact from each of these factors in a given year. They may adjust an estimate based on their assessment of the anticipated impact of certain changes, but that may be one of many factors that contribute to an estimate in a given year.

Neither OPEGA nor MRS was able to identify any existing data that could be used to assess how closely MRS’ estimates reflected actual forgone revenue, or that would better illustrate trends in fiscal impact. It was beyond the scope and resources of our current project for OPEGA to delve any more deeply into the methods used to calculate individual tax expenditures or more fully research other potential data sources. If the Legislature is interested in understanding fiscal impact trends and/or actual impacts from policy changes on these tax expenditures, we suggest the Joint Standing Committee on Taxation confer with MRS and OFPR on options for obtaining such analyses in the future.

Tax Expenditure	Tax Exemption on Sales to the State and Political Subdivisions of the State		
Statutory reference	For exemptions on the sale of goods and certain services to governments: 36 M.R.S. § 1760(2). For exemptions of service provider tax imposed on providers of certain services to governments: 36 M.R.S. § 2557(2).		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales to the State or federal government or to any political subdivision, agency, or instrumentality of them.		
Intended beneficiaries	Taxpayers, due to efficiencies of not taxing entities funded by taxation.		
Estimated fiscal impact 36 M.R.S. § 1760(2)	FY14	\$172,596,735	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$180,984,614	
	FY16	\$177,457,679	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$182,781,409	
	FY18	\$188,264,851	
	FY19	\$193,912,797	
Estimated fiscal impact 36 M.R.S. § 2557(2)	FY14	\$1,000,000 - \$2,999,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$1,000,000 - \$2,999,999	
	FY16	\$1,000,000 - \$2,999,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$1,000,000 - \$2,999,999	
	FY18	\$1,000,000 - \$2,999,999	
	FY19	\$1,000,000 - \$2,999,999	
Notes on estimated fiscal impact	Based on State and local government expenditures as reported in the Statistical Abstract of the United States. MRS states that future estimates will use state and local expenditure data from the <a href="#">U.S. Census Bureau, Annual Survey of State Government Finances</a> since the Abstract is no longer being published.		
Legislative history 36 M.R.S. § 1760(2)	Public Law	Change	
	P.L. 1951, ch.250	Enacted the sales tax exemption for sales to the state or any political subdivision, or to the federal government or to any agency of either of them.	
	P.L. 1983, ch.519	Amended to exclude any organization where one of the levels of government is holding title or has taken as security for any financing arrangement from the exemption.	
	P.L. 1997, ch.729	Amended in 1998 to exclude corporations organized under Title IV, Part E of the Farm Credit Act of 1971, 12 United States Code, Sections 2211 to 2214 from the exemption.	
	P.L. 2005, ch.622	Amended to add clarification that political subdivisions are subdivisions of this State. Reinstated the exemption for any organization where one of the levels of government is holding title or has taken as security for any financing arrangement.	
Legislative history 36 M.R.S. § 2557(2)	P.L. 2003, ch.673	Enacted an exemption to the service provider tax for government entities when certain services became subject to that tax.	

Tax Expenditure	Exemption from the Gasoline Tax for State and Local Governments		
Statutory reference	36 M.R.S. § 2903(4)(C)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Gasoline tax exemption for sales in bulk to the State or any political subdivision of the State.		
Intended beneficiaries	Taxpayers, due to efficiencies of not taxing entities funded by taxation.		
Estimated fiscal impact	FY14	\$2,079,225	Source: 2016-2017 Maine State Tax Expenditure Report
	FY15	\$2,129,597	
	FY16	\$2,103,080	Source: 2018-2019 Maine State Tax Expenditure Report
	FY17	\$2,155,311	
	FY18	\$2,209,187	
	FY19	\$2,264,766	
Notes on estimated fiscal impact	The estimated revenue loss is based on information reported on motor fuel tax returns.		
Legislative history	Public Law	Change	
	P.L. 1983, ch.438	Enacted the allowance of a refund on the tax associated with purchases of internal combustion fuel by the State and political subdivisions of the State.	
	P.L. 1997, ch.738	Enacted to provide an exemption for State gasoline taxes for fuel sold in bulk to any political subdivision of this State. Replaced the provisions where State and local governments were refunded for taxes paid.	
	P.L. 2005, ch.457	Amended to include any agency of this State along with any political subdivision of this State as exempt for the State gasoline tax.	



Tax Expenditure	Exemption from the Special Fuel Tax for State and Local Governments		
Statutory reference	36 M.R.S. § 3204-A(3)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Special Fuel tax exemption for sales to the State or any political subdivision of the State.		
Intended beneficiaries	Taxpayers, due to efficiencies of not taxing entities funded by taxation.		
Estimated fiscal impact	FY14	\$2,732,812	Source: 2016-2017 Maine State Tax Expenditure Report
	FY15	\$2,760,140	
	FY16	\$2,199,492	Source: 2018-2019 Maine State Tax Expenditure Report
	FY17	\$2,221,487	
	FY18	\$2,243,702	
	FY19	\$2,266,139	
Notes on estimated fiscal impact	The estimated revenue loss is based on information reported on motor fuel tax returns.		
Legislative history	Public Law	Change	
	P.L. 1983, ch.94	Enacted the special fuel excise tax levied upon all suppliers of special fuel sold except for sales made to the State or any political subdivision thereof.	
	P.L. 1995, ch.271	Enacted the exemption from the special fuel tax imposed by § 3203 when sold to the State or any political subdivision of the State. This language was included when the prior special fuel chapter was repealed and replaced.	
	P.L. 2007, ch.438	Amended to specify that only fuel sold in bulk was exempt from taxes under this section.	

<b>Tax Expenditure</b>	<b>Tax Exemption on Sales of Tangible Goods and Fabrication Services for Certain Construction Contracts with Certain Exempt Organizations</b>		
Statutory reference	For exemptions of sales tax on tangible property: 36 M.R.S. § 1760(61). For exemptions of service provider tax on fabrication services that are incorporated into the real property of certain exempt organizations: 36 M.R.S. § 2557(31).		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on the sale of tangible personal property and fabrication services to contractors that will incorporate the personal property into physical assets owned by any organization or government entity that is exempt from sales or service provider tax.		
Intended beneficiaries	Contractors who are hired by organizations that are exempt from sales taxes on goods under § 1760 or service provider tax under §2557.		
Estimated fiscal impact 36 M.R.S. § 1760(61)	FY14	\$1,000,000 - \$2,999,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$1,000,000 - \$2,999,999	
	FY16	\$1,000,000 - \$2,999,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$1,000,000 - \$2,999,999	
	FY18	\$1,000,000 - \$2,999,999	
	FY19	\$1,000,000 - \$2,999,999	
Estimated fiscal Impact 36 M.R.S. § 2557(31)	FY14	\$250,000 - \$999,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$250,000 - \$999,999	
	FY16	\$250,000 - \$999,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$250,000 - \$999,999	
	FY18	\$250,000 - \$999,999	
	FY19	\$250,000 - \$999,999	
Notes on estimated fiscal impact	The revenue loss is estimated as a range of possible values because little or no data is available. MRS notes that estimate ranges for expenditures with little or no data are based on several factors, including the experience of tax administrators and the analyst, as well as fiscal notes from past relevant legislation. The estimates are subject to ongoing review and new data sources are included as they become available.		
Legislative history 36 M.R.S. § 1760(61)	Public Law	Change	
	P.L. 1987, ch.769	Enacted to provide a sales tax exemption to purchases by contractors for tangible property that will be physically incorporated in facilities of any organization or governmental entity that is listed as exempt from sales tax.	
	P.L. 1999, ch.414	Amended to allow contractors to qualify for the exemption prior to entering into a construction contract with the exempt organization.	
	P.L. 2003, ch.588	Amended to included subcontractors of contractors in the exemption.	

	P.L. 2005, ch.622	Amended the exemption from sales tax for contractors to include exceptions from the exemption as provided by section 1760-C.
Legislative history 36 M.R.S. § 2557(31)	P.L. 2005, ch.218	Enacted to provide an exemption from service provider tax for fabrication services that are physically incorporated in facilities of any organization or governmental entity that is listed as exempt from the service provider tax.

<b>Tax Expenditure</b>	<b>Sales Tax Exemption for Certain Qualified Snowmobile Trail Grooming Equipment</b>		
Statutory reference	36 M.R.S. § 1760(90)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Sales tax exemption on sales of snowmobile trail grooming equipment to incorporated nonprofit snowmobile clubs used directly and exclusively for grooming of snowmobile trails.		
Intended beneficiaries	Nonprofit snowmobile clubs in the State.		
Estimated fiscal impact	FY14	\$84,392	<i>Source: 2016-2017 Maine State Tax Expenditure Report</i>
	FY15	\$89,361	
	FY16	\$94,948	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
	FY17	\$97,796	
	FY18	\$100,730	
	FY19	\$103,753	
Notes on estimated fiscal impact	Estimate of the number of entities that could use the exemption and their purchases of tangible personal property that would be exempt.		
Legislative history	Public Law	Change	
	P.L. 2007, ch.429	Enacted to extend sales tax exemptions to purchases of snowmobiles and snow grooming equipment by nonprofit snowmobile clubs that are used directly and exclusively for grooming of snowmobile trails.	
	P.L. 2009, ch.491	Amended to clarify eligibility for the exemption. The snowmobile club must be incorporated under the provisions of Title-13-B (Maine Nonprofit Corporation Act) in order to be exempt from sales tax on snow grooming equipment.	

<b>Tax Expenditure</b>	<b>Exemption from Sales and Use Tax for Free Publications and Components of Publications</b>		
Statutory reference	36 M.R.S. § 1760(14-A)		
Distribution mechanism	Free publications and components of those publications are exempted from taxation at the point of sale or delivery.		
Brief description	Tax exemption on sales of publications purchased for distribution free of charge and sales of printed paper materials purchased for inclusion in a publication.		
Intended beneficiaries	Publishers of free publications.		
Estimated fiscal impact	FY14	\$1,234,335	<i>Source: 2016-2017 Maine State Tax Expenditure Report</i>
	FY15	\$1,797,609	
	FY16	\$1,917,425	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
	FY17	\$1,955,773	
	FY18	\$1,994,889	
	FY19	\$2,034,787	
Notes on estimated fiscal impact	Sales tax micro-simulation model.		
Legislative history	Public Law	Change	
	P.L. 2013, ch.564	Enacted to exempt from sales tax, publications that are provided free of charge and printed paper materials, including advertising flyers and promotional materials, purchased for inclusion in a publication are exempt from sales tax. Publication means printed paper material issued at average intervals not exceeding 3 months that manifests a continuity of identity from issue to issue.	

<b>Tax Expenditure</b>	<b>Sales Tax Exemption for Meals for Residents of Certain Nonprofit Congregate Housing Facilities</b>		
Statutory reference	36 M.R.S. § 1760(6)(D)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales of meals to residents of nonprofit, church-affiliated congregare housing facilities for the lower-income elderly.		
Intended beneficiaries	Certain nonprofit congregare housing facilities.		
Estimated fiscal impact	FY14	\$0 - \$49,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$0 - \$49,999	
	FY16	\$0 - \$49,999	
	FY17	\$0 - \$49,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY18	\$0 - \$49,999	
	FY19	\$0 - \$49,999	
Notes on estimated fiscal impact	The revenue loss is estimated as a range of possible values because little or no data is available. MRS notes that estimate ranges for expenditures with little or no data are based on several factors, including the experience of tax administrators and the analyst, as well as fiscal notes from past relevant legislation. The estimates are subject to ongoing review and new data sources are included as they become available.		
Legislative history	Public Law	Change	
	P.L. 1991, ch.846	Enacted to provide a sales tax exemption for meals to residents of incorporated nonprofit church-affiliated congregare housing facilities for the elderly in which at least 75% of the units are available for leasing to eligible lower-income residents.	

<b>Tax Expenditure</b>	<b>Sales Tax Exemption for Providing Meals for the Elderly</b>		
Statutory reference	36 M.R.S. § 1760(6)(C)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales of meals to nonprofit area agencies on aging to provide meals to the elderly.		
Intended beneficiaries	Nonprofit area agencies on aging.		
Estimated fiscal impact	FY14	\$363,300	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$384,690	
	FY16	\$250,000 - \$999,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$250,000 - \$999,999	
	FY18	\$250,000 - \$999,999	
	FY19	\$250,000 - \$999,999	
Notes on estimated fiscal impact	2018-2019: The revenue loss is estimated as a range of possible values because little or no data is available. 2016-2017: Estimate is based on the number of meals served in fiscal year 2002 and the average cost of each meal served in fiscal years 2002 and 2003.		
Legislative history	Public Law	Change	
	P.L. 1979, ch.513	Enacted to exempt from sales tax, the sale of meals by hospitals, schools, long-term care facilities, food contractors and restaurants to incorporated nonprofit area agencies on aging for the purpose of providing meals to the elderly.	

<b>Tax Expenditure</b>	<b>Sales Tax Exemption for Meals Served by a Retirement Facility to its Residents</b>		
Statutory reference	36 M.R.S. § 1760(6)(G)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales of meals served by a retirement facility to its residents under specified conditions including that 80% of residents in the residential housing are 62 years of age or older.		
Intended beneficiaries	Retirement facilities and consumers of meals in retirement facilities.		
Estimated fiscal impact	FY14	\$610,917	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$646,886	
	FY16	\$250,000 - \$999,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$250,000 - \$999,999	
	FY18	\$250,000 - \$999,999	
	FY19	\$250,000 - \$999,999	
Notes on estimated fiscal impact	Estimate of revenue loss is based upon audit information. This estimate is based on a sample – the subset of facilities the state has audited.		
Legislative history	Public Law	Change	
	P.L. 2011, ch.380	Enacted to exempt from sales tax, the meals served by a retirement facility to its residents when the cost of meals is included in a comprehensive fee that includes the right to reside in a residential dwelling unit and meals and other services.	



<b>Tax Expenditure</b>	<b>Sales and Use Tax Exemption for Certain Veterans' Service Organizations</b>		
Statutory reference	36 M.R.S. § 1760(100)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales to an organization that provides services to veterans and their families that is chartered under 36 United States code, subtitle II, Part B.		
Intended beneficiaries	Certain organizations that provide services to veterans and their families.		
Estimated fiscal impact	FY14	\$N/A	<i>Source: 2016-2017 Maine State Tax Expenditure Report</i>
	FY15	\$N/A	
	FY16	\$0	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
	FY17	\$87,868	
	FY18	\$91,822	
	FY19	\$95,954	
Notes on estimated fiscal impact	Estimate of revenue loss is based on the fiscal note prepared for the legislation.		
Legislative history	Public Law	Change	
	P.L. 2015, ch.465	Enacted to exempt from sales tax, the sales to an organization that provides services to veterans and their families that is chartered under 36 United States Code Subtitle II, Part B and that is recognized as a veterans' service organization by the United States Department of Veterans Affairs.	

<b>Tax Expenditure</b>	<b>Tax Exemption on Certain Sales by an Auxiliary Organization of the American Legion</b>		
Statutory reference	36 M.R.S. § 1760(85)		
Distribution mechanism	Exempted from taxation at the point of sale.		
Brief description	Tax exemption on sales of meals and related items and services by a nonprofit auxiliary organization of the American Legion in connection with a fundraising event, under specified conditions.		
Intended beneficiaries	Nonprofit auxiliary organizations of the American Legion when sponsoring fundraising events.		
Estimated fiscal impact	FY14	\$50,000 - \$249,999	<i>Source: 2016-2017 Maine State Tax Expenditure Report</i>
	FY15	\$50,000 - \$249,999	
	FY16	\$50,000 - \$249,999	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
	FY17	\$50,000 - \$249,999	
	FY18	\$50,000 - \$249,999	
	FY19	\$50,000 - \$249,999	
Notes on estimated fiscal impact	The revenue loss is estimated as a range of possible values because little or no data is available. MRS notes that estimate ranges for expenditures with little or no data are based on several factors, including the experience of tax administrators and the analyst, as well as fiscal notes from past relevant legislation. The estimates are subject to ongoing review and new data sources are included as they become available.		
Legislative history	Public Law	Change	
	P.L. 2001, ch.439	Enacted to provide a tax exemption for sales of meals and related items and services by a nonprofit auxiliary organization of the American Legion in connection with a fund-raising event sponsored by the auxiliary organization if the meals are provided in a room that is separate from the lounge facilities, if any, of the American Legion and patrons are prevented from taking alcoholic beverages from the lounge facilities to the separate room where the meals and related items and services are provided.	

Tax Expenditure	Use Tax Exemption on Returned Merchandise Donated to Charity		
Statutory reference	36 M.R.S. § 1863		
Distribution mechanism	Donor of returned merchandise does not remit use tax on donations.		
Brief description	Tax exemption on donations of returned merchandise by a retailer to a charitable organization exempt from federal income tax under U.S. Code Section 501c(3).		
Intended beneficiaries	501c(3) organizations that are exempt from federal income tax.		
Estimated fiscal impact	FY14	\$50,000 - \$249,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$50,000 - \$249,999	
	FY16	\$50,000 - \$249,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY17	\$50,000 - \$249,999	
	FY18	\$50,000 - \$249,999	
	FY19	\$50,000 - \$249,999	
Notes on estimated fiscal impact	The revenue loss is estimated as a range of possible values because little or no data is available. MRS notes that estimate ranges for expenditures with little or no data are based on several factors, including the experience of tax administrators and the analyst, as well as fiscal notes from past relevant legislation. The estimates are subject to ongoing review and new data sources are included as they become available.		
Legislative history	Public Law	Change	
	P.L. 1981, ch.503	Enacted an exemption from the use tax for donations by a retailer of returned items when donated to an organization exempt from taxation under U.S. Internal Revenue Code, Section 501(c)(3) as amended.	

<b>Tax Expenditure</b>	<b>Use Tax Exemption on Merchandise Donated from a Retailer’s Inventory to Exempt Organizations</b>		
Statutory reference	36 M.R.S. § 1864		
Distribution mechanism	Donor of merchandise from inventory does not remit use tax on donations.		
Brief description	Tax exemption on donations of merchandise from inventory by a retailer to an organization exempt from Maine sales tax.		
Intended beneficiaries	Organizations which are exempt from sales tax under 36 M.R.S. § 1760.		
Estimated fiscal impact	FY14	\$50,000 - \$249,999	<i>Source:</i> 2016-2017 Maine State Tax Expenditure Report
	FY15	\$50,000 - \$249,999	
	FY16	\$50,000 - \$249,999	
	FY17	\$50,000 - \$249,999	<i>Source:</i> 2018-2019 Maine State Tax Expenditure Report
	FY18	\$50,000 - \$249,999	
	FY19	\$50,000 - \$249,999	
Notes on estimated fiscal impact	The revenue loss is estimated as a range of possible values because little or no data is available. MRS notes that estimate ranges for expenditures with little or no data are based on several factors, including the experience of tax administrators and the analyst, as well as fiscal notes from past relevant legislation. The estimates are subject to ongoing review and new data sources are included as they become available.		
Legislative history	Public Law	Change	
	P.L. 2001, ch.439	Enacted an exemption from the use tax for donations of merchandise by a retailer from inventory to an organization if sales to that organization are exempt from sales tax under section 1760.	

Tax Expenditure	Job Increment Financing Fund – Brunswick		
Statutory reference	5 M.R.S. § 13083-S-1		
Distribution mechanism	An amount calculated based on State income tax withholding from employees above the base level of employment of businesses operating within the base area is deposited into a contingent account established by the State Controller. The contingent account is drawn from by Southern Maine Community College and Brunswick Naval Air Station Redevelopment Authority.		
Brief description	The Brunswick Job Increment Financing Fund is used to fund the costs of education and municipal services within the geographic boundaries of the former Brunswick Naval Air Station.		
Intended beneficiaries	Southern Maine Community College and the Brunswick Naval Air Station Redevelopment Authority.		
Estimated fiscal impact	FY14	\$59,201	<i>Source: Maine State Revenue Service calculation for OPEGA</i>
	FY15	\$72,048	
	FY16	\$103,924	
	FY17	\$131,697	
	FY18	\$149,711	
	FY19	\$177,676	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
Notes on estimated fiscal impact	Actual and projected payments by MRS. Projections are based upon MRS growth assumptions.		
Legislative history	Public Law	Change	
	P.L. 2009, ch.641	Enacted the job increment financing fund for the former Brunswick Naval Air Station. The State provides 50% of the amount of state tax withholding attributable to employees above a baseline employed within the boundaries of the former Naval Air Station to be used for municipal services and higher education services to aid in the economic development of the area.	

Tax Expenditure	Job Increment Financing Fund – Loring		
Statutory reference	5 M.R.S. § 13080-O through § 13080-T		
Distribution mechanism	An amount calculated based on State income tax withholding from employees above the base level of employment of businesses operating within the base area is deposited into a contingent account established by the State Controller. The contingent account is drawn from by Loring Development Authority.		
Brief description	The Loring Job Increment Financing Fund is used to fund the costs of municipal services within the geographic boundaries of the former Loring Air Force Base.		
Intended beneficiaries	Loring Development Authority.		
Estimated fiscal impact	FY14	\$796,938	<i>Source: Maine State Revenue Service calculation for OPEGA</i>
	FY15	\$738,571	
	FY16	\$603,523	
	FY17	\$1,317,671	
	FY18	\$650,158	
	FY19	\$650,158	<i>Source: 2018-2019 Maine State Tax Expenditure Report</i>
Notes on estimated fiscal impact	Actual and projected payments by MRS. Projections are based upon MRS growth assumptions.		
Legislative history	Public Law	Change	
	P.L. 1995, ch.644	Enacted the job increment financing fund for the former Loring Air Force Base. The State provides 50% of the amount of state tax withholding attributable to employees above a baseline employed within the boundaries of the former Air Force Base to be used for municipal services to aid in the economic development of the area.	
	P.L. 1997, ch.504	Amended the program to disallow the use of withholding taxes in the calculation of employment tax increment from any business which claims any withholding-based credits authorized by Title 36 Part 9 which includes the Employment Tax Increment Financing program.	
	P.L. 2013, ch.413	Amended to extend payments to the fund for 10 more years beyond its initial sunset of 2016 so that the program continues through July 1, 2026.	
	P.L. 2015, ch.486	Amended the program to provide the full amount of state tax withholding attributable to employees rather than 50% for the year 2016.	

## ***Appendix A: Selected Sections of Statute Relevant to Expedited Reviews of Tax Expenditures***

### **3 M.R.S. § 998. Process for review of tax expenditures<sup>5</sup>**

1. Assignment of review categories. By October 1, 2015, the committee, in consultation with the policy committee, shall assign each tax expenditure to one of the following review categories:
  - A. Full evaluation for tax expenditures that are intended to provide an incentive for specific behaviors, that provide a benefit to a specific group of beneficiaries or for which measurable goals can be identified;
  - B. Expedited review for tax expenditures that are intended to implement broad tax policy goals that cannot be reasonably measured; and
  - C. No review for tax expenditures with an impact on state revenue of less than \$50,000 or that otherwise do not warrant either a full evaluation or expedited review.
2. Schedule. By October 1, 2015, the committee, in consultation with the policy committee, shall establish a schedule of ongoing review of the tax expenditures assigned to the full evaluation and expedited review categories pursuant to subsection 1, paragraphs A and B. To the extent practicable, the committee shall schedule the review of tax expenditures with similar goals during the same year.
3. Annual review of assignments and schedule. By October 1st of each year, beginning in 2016, the committee, in consultation with the policy committee, shall review and make any necessary adjustments to the review category assignments and schedule pursuant to subsections 1 and 2, including adjustments needed to incorporate tax expenditures enacted, amended or repealed during the preceding year.
4. Office responsibilities. The office shall maintain a current record of the review category assignments and the schedule under this section.

### **3 M.R.S. § 1000(2). Expedited review of tax expenditures**

1. Expedited review process. Beginning July 1, 2016, the policy committee shall conduct expedited reviews of tax expenditures and the associated tax policies identified under section 998, subsection 1, paragraph B, in accordance with the schedule established in section 998, subsection 2.
  - A. For each tax policy subject to review, the policy committee shall assess the continued relevance of, or need for adjustments to, the policy, considering:
    1. The reasons the tax policy was adopted;
    2. The extent to which the reasons for the adoption still remain or whether the tax policy should be reconsidered;
    3. The extent to which the tax policy is consistent or inconsistent with other state goals; and
    4. The fiscal impact of the tax policy, including past and estimated future impacts.

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<sup>5</sup> In these sections of law, “the office” refers to OPEGA; “the committee” refers to the Government Oversight Committee; “the policy committee” refers to the Taxation Committee.

## **Appendix A: Selected Sections of Statute Relevant to Expedited Reviews of Tax Expenditures**

- B. For each tax expenditure related to the tax policy under review, the policy committee shall assess the continued relevance of, or need for adjustments to, the expenditure, considering:
  1. The fiscal impact of the tax expenditure, including past and estimated future impacts;
  2. The administrative costs and burdens associated with the tax expenditure;
  3. The extent to which the tax expenditure is consistent with the broad tax policy and with the other tax expenditures established in connection with the policy;
  4. The extent to which the design of the tax expenditure is effective in accomplishing its tax policy purpose;
  5. The extent to which there are adequate mechanisms, including enforcement efforts, to ensure that only intended beneficiaries are receiving benefits and that beneficiaries are compliant with any requirements;
  6. The extent to which the reasons for establishing the tax expenditure remain or whether the need for it should be reconsidered; and
  7. Any other reasons to discontinue or amend the tax expenditure.
2. Action by the office. By July 1st of each year, beginning in 2016, the office shall collect, prepare and submit to the policy committee the following information to support the expedited reviews under subsection 1:
  - A. A description of the tax policy under review;
  - B. Summary information on each tax expenditure associated with the tax policy under review, including:
    1. A description of the tax expenditure and the mechanism through which the tax benefit is distributed;
    2. The intended beneficiaries of the tax expenditure; and
    3. A legislative history of the tax expenditure; and
  - C. The fiscal impact of the tax policy and each related tax expenditure, including past and estimated future impacts.
3. Report by policy committee; legislation. By December 1st of each year, beginning in 2016, the policy committee shall submit to the Legislature a report on the results of the expedited reviews conducted pursuant to subsection 1 that year. The policy committee may submit a bill related to the report to the next regular session of the Legislature to implement the policy committee's recommendations.



**Appendix B: Estimated Fiscal Impact of “Charitable” & “Specific Policy Goal/Mandate” Tax Expenditures, FY14-FY19**

Expenditure	Statute	FY14	FY15	FY16	FY17	FY18	FY19
Tax Exemption on Sales to the State and Political Subdivisions of the State	36 M.R.S. § 1760(2)	\$172,596,735	\$180,984,614	\$177,457,679	\$182,781,409	\$188,264,851	\$193,912,797
	36 M.R.S. § 2557(2)	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999
Exemption from the Gasoline Tax for State and Local Governments	36 M.R.S. § 2903 (4)(C)	\$2,079,225	\$2,129,597	\$2,103,080	\$2,155,311	\$2,209,187	\$2,264,766
Exemption from the Special Fuel Tax for State and Local Governments	36 M.R.S. § 3204-A(3)	\$2,732,812	\$2,760,140	\$2,199,492	\$2,221,487	\$2,243,702	\$2,266,139
Tax Exemption on Sales of Tangible Goods and Fabrication Services for Certain Construction Contracts with Certain Exempt Organizations	36 M.R.S. § 1760(61)	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999	\$1,000,000 - \$2,999,999
	36 M.R.S. 2557(31)	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999
Sales Tax Exemption for Certain Qualified Snowmobile Trail Grooming Equipment	36 M.R.S. § 1760(90)	\$84,392	\$89,361	\$94,948	\$97,796	\$100,730	\$103,753
Exemption from Sales and Use Tax for Free Publications and Components of Publications	36 M.R.S. § 1760 (14-A)	\$1,234,335	\$1,797,609	\$1,917,425	\$1,955,773	\$1,994,889	\$2,034,787
Sales Tax Exemption for Meals for Residents of Certain Nonprofit Congregate Housing Facilities	36 M.R.S. § 1760 (6)(D)	\$0 - \$49,999	\$0 - \$49,999	\$0 - \$49,999	\$0 - \$49,999	\$0 - \$49,999	\$0 - \$49,999
Sales Tax Exemption for Providing Meals to the Elderly	36 M.R.S. § 1760 (6)(C)	\$363,300	\$384,690	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999
Sales Tax Exemption for Meals Served by a Retirement Facility to its Residents	36 M.R.S. § 1760 (6)(G)	\$610,917	\$646,886	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999	\$250,000 - \$999,999
Sales and Use Tax Exemption for Certain Veterans’ Service Organization	36 M.R.S. § 1760 (100)	n/a	n/a	\$0	\$87,868	\$91,822	\$95,954
Tax Exemption on Certain Sales by an Auxiliary Organization of the American Legion	36 M.R.S. § 1760(85)	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999
Use Tax Exemption on Returned Merchandise Donated to Charity	36 M.R.S. § 1863	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999
Use Tax Exemption on Merchandise Donated from a Retailer’s Inventory to Exempt Organizations	36 M.R.S. § 1864	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999	\$50,000 - \$249,999
Job Increment Financing Fund – Brunswick	5 M.R.S. § 13083-S-1	\$59,201	\$72,048	\$103,924	\$131,697	\$149,711	\$177,676
Job Increment Financing Fund – Loring	5 M.R.S. § 13080-0 through \$13080-T	\$796,938	\$738,571	\$603,523	\$1,317,671	\$650,158	\$650,158
<b>TOTAL</b>		\$185,657,852	\$194,703,513	\$190,830,067	\$197,099,008	\$202,055,046	\$207,856,026

## **Appendix C: Additional Discussion of MRS' Microsimulation Model**

### **History of Updates to M.R.S' Office of Tax Policy Microsimulation Model**

The sales and excise tax model is one of several microsimulation models M.R.S uses to forecast state revenues, to estimate the impact of proposed changes to state and local tax laws, and to develop a distributional analysis of Maine's state and local tax systems. The complete system of tax models also includes models for individual income tax, corporate income tax, property tax, and multi-tax incidence. The models are developed by contractors selected by M.R.S through a competitive bid process.

M.R.S has had four Sales and Excise tax models since 1999 and has a goal of updating the model every five years. The details on models used to date are:

Model I: Contracted with KPMG, LLP in 1998. Models were completed by end of 1999 and used for fiscal note purposes beginning with the 2000 legislative session. The FY02/03 biennial budget was the first time the models were used for tax expenditure estimates (January 2001).

Model II: Contracted with Barents Group, LLC (at that time a subsidiary of KPMG) in 2002. Models were completed by the end of 2004 and used for fiscal note purposes beginning with the 2005 legislative session. The FY06/07 biennial budget was the first time the models were used for tax expenditure estimates (January 2005). Base year data in this model was for the year 2000. This model was used for fiscal estimates in the 2014-2015 Maine State Tax Expenditure Report.

Model III: Contracted with Chainbridge, LLC in 2011. Models were completed by the end of 2011 and used for fiscal note purposes beginning with the 2012 legislative session. The FY14/15 biennial budget was the first time the models were used for tax expenditure estimates (January 2013). Base year data in this model is for the year 2009. This model was used for fiscal estimates for Sales & Use Tax expenditures in the 2016-2017 Maine State Tax Expenditure Report.

Model IV: Contracted with Chainbridge, LLC in 2016. The Sales tax model was completed by the fall of 2016 and used for fiscal note purposes beginning with the 2017 legislative session. The FY18/19 biennial budget was the first time the models were used for tax expenditure estimates (January 2017). Base year data in this model is from 2012 and 2014. The income tax model was used for fiscal note purposes beginning with the 2018 legislative session.