

**Testimony of Richard W. Rosen, Commissioner
Department of Administrative and Financial Services**

**Before the Joint Standing Committees on
Appropriations and Financial Affairs and Taxation**

"An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2018 and June 30, 2019"

February 7, 2017

Good afternoon Senators Hamper and Dow, Representatives Gattine and Tipping, and Members of the Joint Standing Committees on Appropriations and Financial Affairs and Taxation. My name is Richard Rosen, and I am the Commissioner of the Department of Administrative and Financial Services. It is a pleasure to appear before you today.

I am here today in support of the Department's biennial budget submission. The topics on today's agenda all relate to property taxes on business personal property, namely the BETE/BETR programs and the telecommunications excise tax. These changes will simplify the tax system for both taxpayers and Maine Revenue Services while limiting the revenue impact on municipalities.

Mandate BETE - Reimburse Municipalities (Z065)

The first item on the agenda can be found at the bottom of page A-27 of the budget document. The Mandate BETE - Reimburse Municipalities Program provides funds for offsetting the cost of implementing the Business Equipment Tax Exemption program. The baseline General Fund budget is for \$19,097 in each fiscal year. There are no proposed changes to this account.

Part H - Telecommunications Equipment Excise Tax & Property Tax Exemption

The next item on the agenda is Part H, which can be found beginning on page 52 of the language section of the budget document.

Part H would repeal the State's telecommunications excise tax and the corresponding exemption from municipal property taxes.

Currently, Maine imposes a state excise tax on telecommunications businesses based on the value of two-way interactive telecommunications equipment in the state. Maine first enacted a State tax on telecommunications equipment in 1987 to replace a gross operating revenue tax. At the time, landline companies were the predominant provider of telecommunications services provided over a large network of copper wires, poles and switches. The operating plant and personal property used to produce and deliver communications services are assessed according to their just value using the municipal tax rate where the property is located. Single and multi-line telephones, towers, motor vehicles and real estate are not included in the excise tax and are already subject to tax by the municipality.

With the changes proposed in Part H, the taxes currently paid to the State would become payable to the municipality. This consolidates property tax obligations for a business under one taxing authority, and puts approximately \$6.5 million back into municipal budgets, all with little to no impact on telecommunications taxpayers. As part of the larger property tax relief package, these changes make more funds available to cities and towns by expanding their property tax base.

The proposed shift from state to local taxation is effective October 1, 2017.

Part I – BETE & BETR Programs

The final item on the agenda for this public hearing is Part I, which can be found beginning on page 55 of the language section of the budget document. Part I amends the statutes for the Business Equipment Tax Exemption (BETE) and the Business Equipment Tax Reimbursement (BETR) programs, with these changes based on the 2013 task force that was established by the biennial budget to study the transition of BETR into BETE.

Under current law, the BETE program provides an exemption for eligible equipment from local property taxes. Eligible equipment is that which was placed into service on or after April 1, 2008, is or was depreciable, and is devoted to furthering a particular business activity in Maine. Municipalities are reimbursed by the State for 50 percent of the lost property tax revenue resulting from the exemption.

The BETR program reimburses businesses for the property taxes paid on eligible business equipment. For the first twelve years of reimbursement, 100 percent of property taxes are reimbursed. Starting in the 13th year, the reimbursement is reduced to 75 percent and decreases each year thereafter until it reaches 50 percent.

The proposed statutory changes would phase out and eventually eliminate the BETR program. Part I also transitions certain properties to the BETE program. In the transition, any property that would have been eligible for the BETR program on April 1, 2018 would become eligible for the BETE program instead. The exemptions are phased in over the next four years, allowing for a 25 percent exemption in the first year and increasing by 25 percent each year until the full value of the property is exempted. However, property located at retail sales facilities will no longer be eligible starting in 2018. Retail property that is already eligible for the BETE program will remain eligible until 2027.

By phasing out the BETR program, we create consistency in the treatment of business equipment under one state program. One set of laws reduces complexity for businesses, municipalities, and state government. A simpler tax code benefits everyone.

I would conclude my testimony today by reminding members of our discussion yesterday of the stand-alone property tax initiatives that are being put forward by my department. Those proposals; in particular the proposals to reform the Tree Growth program, authorize a service charge against large non-profit organizations, and eliminate the property tax exemption for land trusts; all seek to expand the property tax base in our towns and cities. They pair well with the transfer of the telecommunications excise tax, which seeks to do the same, and the phase-out of the BETR program, which aims to simplify the administration and compliance of a business-orientated property tax program.

I am happy to answer any questions you have at this time.