Maine Center for Economic Policy

Mailing: PO Box 437
Street: 1 Weston Court, Suite 103, Box 4
Augusta, ME 04332
Tel: 207.622.7381
www.mecep.org

Testimony in Opposition to 138, "An Act To Update References to the United States Internal Revenue Code of 1986 Contained in the Maine Revised Statutes, Decouple Federal Bonus Depreciation Deductions and Create a Maine Capital Investment Credit"
by Joel Johnson
January 29, 2015

Good afternoon Senator Hamper, Representative Rotundo, Senator McCormick, Representative Goode, and members of the Joint Standing Committees on Appropriations and Financial Affairs and Taxation. I am Joel Johnson, an economist at the Maine Center for Economic Policy (MECEP). MECEP advances public policies that help Maine people prosper in a strong, fair, and sustainable economy.

I am here today to testify in opposition to one specific provision of LD 138: the retroactive extension of the Maine Capital Investment Credit for Tax Year 2014. This proposal would be ineffective for stimulating the Maine economy and unnecessarily subsidize mostly large multi-state businesses that already receive generous tax treatment for capital investments.

Bonus depreciation is a federal tax policy that allows large businesses to immediately deduct some portion of the cost of capital equipment (vehicles, machinery, computers, etc.) from their taxable income. They then deduct the remainder of the cost over the remaining life of the equipment. Without bonus depreciation, businesses would still be able to deduct the entire cost of capital purchases, but they would do so on a normal depreciation schedule, typically between 3 and 7 years. Bonus depreciation has varied from 30% back in 2002, when the policy was first put in place at the federal level, to 50% for several years between 2003 and 2010, to 100% in 2011, in the wake of the Great Recession.[1] In December of 2014, Congress retroactively enacted 50% bonus depreciation for capital goods purchased during calendar year 2014.

Since Maine's tax code is built off the federal tax code, Maine policymakers must decide whether to "conform" to or "decouple" from changes in federal tax law. In the case of bonus depreciation, Maine has always technically been decoupled from federal law, but beginning in 2011 the state began offering a tax credit for capital goods purchases called the Maine Capital Investment Credit. This credit, which reduces a corporation's tax bill on a dollar-for-dollar basis, is equal to 9% of a taxpayer's federal bonus depreciation. The credit created a kind of "quasi-conformity" with federal bonus depreciation and has been in effect in Maine ever since.

From 2011 through 2014, Congress has continued to extend bonus depreciation, and Maine lawmakers have approved Governor LePage's proposals to extend the capital investment credit in response to Congress's extensions of the federal tax break. Meanwhile, in sharp contrast to this extended business tax break, federal and state

[1] Leonard Burman and Joel Slemrod, "Taxes in America", p. 72.

lawmakers have not extended recession-era policies designed to help workers and bolster the safety net (e.g. extended unemployment insurance, waiver of the 3-month limit on nutrition assistance). Congress enacted bonus depreciation in the hopes of temporarily boosting the economy. It was never meant to be a permanent part of the tax code or extended year after year.

At the federal level, the bonus depreciation tax deduction does not stimulate the economy as its proponents believe, according to a variety of analysts from Goldman Sachs, Moody's, and the Congressional Research Service.[2] 83% of business executives polled by Bloomberg said the expiration of bonus depreciation at the end of 2013 had no effect on their capital expenditures. According to Bloomberg research, "the corporate world seems united in its collective skepticism of the usefulness of these tax breaks."[3] If bonus depreciation is ineffective at the federal level, it's even more ineffective at the state level, where corporate tax payments are a fraction of what they are at the federal level. By extending bonus depreciation, Maine will be spending millions of dollars to subsidize purchases of equipment by corporations headquartered outside the state.

Bonus depreciation also makes no sense at all when it is made retroactive to last year. This provides no incentive for corporations to purchase equipment. All it does is provide a windfall to corporations for purchases they have already made.

Companies already receive generous tax treatment when they invest in equipment. Even without bonus depreciation, companies pay far less than the statutory corporate income tax rate on the profits flowing from investments in business equipment. According to the Congressional Research Service, many debt-financed investments in business equipment actually face a negative effective tax rate on their federal taxes.[4] That tax treatment flows through to Maine's tax code. There is no reason to make the tax treatment of capital goods purchases more generous than it already is.

The governor's proposal to extend the bonus depreciation tax break for 2014 would be costly: $10 million in the current budget year.[5] Previously conservative revenue forecasting, a drop in fuel prices, and arcane technical changes to forecasting methodology mean Maine is now expected to collect $46 million more revenue than previously expected this year. But that doesn't mean the state is rolling in cash. Revenue over the next two years is expected to fall $394 million short of what we need to educate our kids, take care of our vulnerable residents, and mitigate local property tax increases.[6] We can't afford to waste millions of dollars on unnecessary and ineffective tax breaks for large corporations.

[2] Center on Budget and Policy Priorities (http://www.cbpp.org/cms/?fa=view&id=4149)
[3] Bloomberg BNA survey of business tax and accounting leaders (http://www.bnasoftware.com/PDFs/resource-center/Whitepapers/Bloomberg_BNA_Capital_Expenditures_White_Paper.pdf)
[4] Center on Budget and Policy Priorities (http://www.cbpp.org/cms/?fa=view&id=4149)
[5] Maine Revenue Services estimates
[6] Maine Department of Administrative and Financial Services 4-year budget forecast (i.e. "structural budget gap" forecast) (http://www.maine.gov/budget/documents/2016-2017BudgetOverview.pdf)