EXPORTING STATE AND LOCAL TAXES: AN APPLICATION TO THE STATE OF MAINE

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I. INTRODUCTION

Tax exportation takes place when a tax imposed by one jurisdiction is borne by a resident of another jurisdiction. The notion of exporting taxes to non-residents often draws considerable support from politicians and the public at large. In many instances the motivation is well-founded, as in the case of non-residents who receive public-service benefits from a state or locality that are financed by state and local resident taxpayers. But there also may be a bit of mischief involved. State residents, for example, may simply want to enjoy a lower tax bill for public services, and tax exporting may be perceived as one means of doing so. Alternatively, politicians may seek to shift taxes to non-residents to garner votes from the resident population. While there are good and bad reasons to export taxes to non-residents, a critical question is whether or not this is even possible given market conditions. In other words, who ultimately bears the burden of taxes that nominally fall on non-residents? In some instances, the tax may be borne by non-residents, while, in other instances, the tax may be shifted in such a way as to be borne by state residents. This is an important practical consideration when evaluating tax-exporting proposals.

Businesses represent one potential tax-exporting opportunity. This might include firms owned in part or in whole by non-residents, as well as firms that export a service or a good (like minerals) to another state. But, as discussed more fully below, market conditions often place significant constraints on this form of tax exporting. One consequence is that taxes on businesses simply may be shifted back to in-state workers and property owners.

Tourism is a more attractive tax exporting opportunity, as market conditions are often such that tourists in fact will bear the burden of the taxes imposed on them. The tourism industry in Maine is of significant size, and is estimated to have supported 176,633 jobs, produced nearly $4 billion in wage and salary income, and yielded $531 million in tax revenue in 2004.[1] The sectors benefiting the most were, in order, retail trade, restaurants, transportation, recreation, and accommodations. These sectors are often targeted with unique tax levies. It is important to recognize that even tourism has its limitations as a mechanism for tax exporting. High tourist taxes can repel tourists and reduce in-state economic activity. Moreover, state residents often bear part of the burden of taxes levied on tourism activities. Of the tourism impacts noted above for Maine, about 30 percent arise from the expenditures of state residents.

A third possibility for exporting tax burdens is the residential property tax and second homes owned by non-residents. The most common means of exploiting this mechanism is homestead exemptions that are made available only to residents of the state. Maine

[1] The Maine Office of Tourism supports an annual study documenting the contributions of the tourism industry to the state economy; see Longwoods International (2005). The Travel Institute of America and the U.S. Bureau of Economic Analysis also provide data and information on the tourism industry.

currently offers homestead relief, as well as relief through circuit breakers linked to household income for homeowners and renters. Thus, second homes—whether they are owned by residents or non-residents—will incur higher taxes than primary residences. As with other methods of tax exporting, market conditions once again serve to limit a state's capacity to export the burden of the property tax to non-residents. Moreover, expanding property-tax relief programs for residents means a loss in revenue that must be financed in some other way by the state and local fiscal system.

The remainder of this report focuses on tax-exporting opportunities for Maine. The first section generally explores and evaluates the various rationales that might be offered to support the policy goal of tax exporting. The best economic rationales that emerge from this discussion are the benefit tax, externality, and rent arguments. The second section considers specific tax-exporting mechanisms, couched in terms of traditional tax-incidence analysis. The lesson here is that careful attention must be paid to market conditions to ensure that the economic burden of taxes focused on non-residents is not, in fact, shifted to state residents. The following sections provide an overview of state tax practice toward tourism, to place Maine's policy stance in perspective, as well as a presentation of tax-exporting revenue options for the state. These latter two sections emphasize specific services, tourism levies, and the residential property tax. The best candidate for tax exportation is a higher homestead exemption that can shift property-tax burdens to non-resident owners of second homes. Increasing the tax on lodging is also worthy of consideration. While revenue objectives might be met by expanding the sales-tax base to include selected services such as amusements and entertainment, a large share of the resulting tax burden would fall on state residents, thus defeating the tax-exporting objective. The final section of the report provides a concise summary of findings.

II. WHY EXPORT STATE AND LOCAL TAXES?

There are numerous arguments to support the policy goal of exporting state taxes to non-residents. While many of these arguments have merit, policy must be tempered by the reality of markets and tax-shifting opportunities, as well as burdens from levies like a lodging tax that may fall on in-state residents.[2]

Benefit Taxation. Non-residents, including individuals and firms owned by people who reside in other jurisdictions, derive benefits from the public services provided by state and local governments. Consistent with the benefit-tax argument, it is appropriate that non-residents pay taxes to compensate the public sector for the services they receive. Should the taxes paid fall short of the benefits provided, in-state taxpayers must make up the shortfall or public-service delivery will be compromised. Alternatively, should taxes exceed benefits—holding all else the same—non-residents will be deterred from spending on services in the state, and economic activity will suffer. Visitors will choose alternative locations for recreation and vacation activities, while businesses will reallocate investment and jobs to lower tax jurisdictions.

In practice, it is difficult to measure the costs borne by state and local governments from the activities of non-residents. It is also difficult to structure taxes solely to be paid by non-residents to fund public-service provision. There is generally no distinction in tax liabilities or public-service provision for firms owned by residents versus non-residents. The property tax, as well as other taxes and fees, are generally viewed as the price businesses must pay to operate in a given jurisdiction. In the spirit of Tiebout (1956), firms evaluate the mix of taxes and services across jurisdictions, and sort themselves accordingly.

Because state residents pay an array of taxes and fees to support public services, efforts are often made to impose unique levies on tourists and visitors who do not pay these same taxes. The primary tax instruments are indirect taxes such as ones on lodging services and restaurants; as such, all consumers pay these taxes, including state residents. Only if there are unique public-service burdens associated with the consumption of lodging services and restaurant meals would this be consistent with the benefit-tax argument.

Most states impose relatively higher taxes on residential property held by non-residents by granting homestead exemptions. If the benefit-tax argument is used to support this policy, the presumption must be that the services provided to non-residents cannot be funded by a uniform property tax paid by both residents and non-residents. In reality, the services provided to non-residents generally will be narrower in scope and less costly than those provided to residents. Public education services are, perhaps, the best example. Many state residents will pay higher taxes on second homes that are not afforded a

[2] Some of the material from this section draws from Mak (2004), who discusses the rationale for tourism taxation.

homestead exemption. Again, the presumption must be that a uniform property tax does not align with the benefits bestowed on these individuals through public-service delivery.

Externalities. Non-residents may create negative externalities, and appropriately structured taxes can help internalize these externalities. Visitors may contribute to congestion and noise problems, as well as to environmental pollution. Of course, residents may impose similar costs. Residents may be more willing to accept problems created by other residents who pay all state and local taxes than similar problems that arise from the presence of non-residents. But, if the externalities are based on utilization, consumers generally should be subject to taxation, whether they are residents or non-residents. For example, congestion of facilities such as parks and roads (i.e., impure public goods) should be addressed through common user fees unless specific individuals or groups impose unique damages.

Rents. The unique resources and positive attributes of a region may give rise to "rents" that can be captured in part or in whole by taxes. Rents might accrue, for example, from the presence of relatively unique natural resources such as minerals, coal, petroleum, and natural gas. Severance and similar taxes are often used to tax these extraction and production activities. Natural and man-made amenities also may yield rents. Maine certainly benefits from its rich and scenic natural environment and seacoast, as well as amenities such as Acadia National Park that are likely to create rents. These natural resources are a primary reason people visit the state. But taxing these activities often can be done only indirectly. While taxes can be imposed for entry to a park, one cannot easily tax a scenic view.[3]

It should be recognized that private agents—both producers and, especially, property owners—also may seek to extract the rents associated with place-specific attributes by capitalizing amenities into prices. One would expect higher lodging, restaurant, and transportation prices, as well as higher property prices, in areas characterized by highly desirable amenities. In some instances property owners and the producers of these services may be non-residents. But in other instances, they may be state residents. In the latter case, the rents generated from non-residents are redistributed from in-state producers to state revenue coffers.

Market Power. Some firms may have market power on the demand side of the product market. For example, a firm located in a state may produce a unique product for which there are few viable substitutes, and then sell this product in a national market. In such instances, the firm and its product may be perceived as offering a good mechanism for exporting tax burdens if revenue gains are the ultimate policy objective. But, as discussed below, the product and factor market conditions enabling effective tax exporting through this

[3] Considerable controversy has emerged in New Hampshire over new property-valuation procedures that take scenic views into account when assessing property.

mechanism are quite restrictive in practice. It is unlikely that many firms in Maine enjoy sufficient product market power that might be exploited to export taxes.

Political Expediency. Political expediency may be an important practical factor influencing the design and implementation of taxes on non-residents, including both firms and individuals. Politicians may seek to exploit the public perception that non-residents would bear the burden of any levies imposed on them even if that is not the case in practice. There is theoretical support for this argument from political economy models like that of Hettich and Winer (1988). In this modeling framework politicians seek to minimize taxes on specific voter groups so as to maximize the prospects for election and re-election. Since non-residents do not vote, it may prove attractive to propose exporting tax burdens to them.

At the same time that there are political motivations to export taxes, there are also economic and political forces working in the opposite direction. For example, resident individuals and businesses are aware of the fact that they will bear some of the burden of tourism taxes on lodging and restaurants; workers are likely to have some understanding that high business taxes might cost them their job. Taxing second homes is appealing unless you are a state resident who owns such a home. So while tax exporting may garner some votes, it is also likely to cost a politician some votes as well.

Subsidize the Cost of Public-Service Provision. A related concern is what might be referred to as the “free lunch theory” of tax exportation. Some may perceive non-residents as truly bearing the burden of export-oriented taxes, giving rise to a form of fiscal illusion over the resident tax price (or out-of-pocket cost) of funding public services. There also may be market conditions (see below) under which taxes effectively can be shifted to non-residents. The more of the burden that can be shifted to non-residents, the lower will be the resident tax price of public services. It is appropriate to charge non-residents for public-service benefits and impose levies to mitigate externalities created by visitors. But to use non-residents simply to fund public services consumed by residents may not be viewed as equitable. Moreover, there are concerns in the literature over the inefficiency that may arise from this form of service-cost subsidization.

The efficiency issue is whether an artificially low resident-tax price leads to the over-provision of public services, as argued by McLure (1967). Not all economists share McLure’s view. For example, Mieszkowski and Toder (1983) consider a model in which local governments maximize the revenue derived from exporting. If the desired level of spending can be fully supported by these revenues, no increase in the size of the public sector will follow from exporting. If, on the other hand, the demand for public goods is higher than that supported by exported taxes, the incremental services must be financed solely by resident taxpayers and there is no increase in government size. Wildasin (1987) generalizes this modeling approach, and concludes that government size may be stimulated in some instances by tax exporting, but that this is not generally the case.

Constitutional Constraints Limiting Tax Exporting. In practice there are federal constitutional constraints on the states' ability to tax non-residents, including the prohibition against taxing international exports.[4] Most important is the Commerce Clause (contained in Article 1) of the U.S Constitution that prohibits actions that impede interstate commerce. This has been interpreted by the courts to preclude tax discrimination. In practice, this means that a state cannot directly impose differential rates of sales or property taxes on non-residents versus residents. However, there are indirect means of achieving the same objective. For example a state could provide a sales tax credit under its state income tax, as does Colorado. But the most general examples are homestead exemptions and circuit breakers made available only to individuals who reside in the state.

Under the personal and corporate income taxes, taxpayers generally must have some form of connection to a state to enable state taxation, such as earning income within the state. In other words, the state personal and corporate income taxes cannot be imposed on non-residents who earn income in other states. Individuals who earn income in non-resident states generally receive tax credits that can be applied against income tax in the state of residence. For corporations with multistate business income, such income must be fairly apportioned across the states, which reduces the likelihood of double taxation.

Summary. The discussion above offers several justifications for shifting tax burdens to non-residents, some of which have greater merit than others. The strongest economic rationales for tax exportation fall under the benefit tax, externality, and rent headings; political expediency and subsidizing service provision are the weakest arguments. The policy goal of tax exporting should not be driven by opportunism and possible political gains.

[4] For a brief summary, see Musgrave and Musgrave (1989), chapter 3. Pomp and Oldman (2001) and Schoettle (2003) provide comprehensive detail on state taxing authority under the U.S. Constitution.

III. Tax Incidence and Tax Exporting

Any policy to export taxes must be evaluated in the context of markets and practical tax-shifting opportunities. Tax exportation takes place when a tax imposed by one jurisdiction is borne by a taxpayer who resides in another jurisdiction. In practice, the extent to which non-residents bear the burden of a tax depends on supply and demand elasticities in both product markets and factor markets. Statutory incidence—where the legal liability for the tax burden falls—is irrelevant to determining who ultimately bears the economic incidence or true burden of the tax.[5]

There is a significant body of literature that examines the exportation of state and local taxes through a number of different mechanisms. McLure (1967) offered the first empirical estimates of state and local tax-exporting, and concluded that about 23 percent of taxes were exported in 1962. Gade and Adkins (1990) empirically examine the tax-structure choices of the states, accounting for the deductibility of various taxes under the federal income tax. They, like McLure, rely on broad measures of exporting opportunities including the size of the mining (rents) and manufacturing sectors (market power), and a proxy for tourism activity. Mining activity is found to reduce reliance on income and sales taxes, while tourism lowers usage of income and sales taxes and increases license-fee revenue. It is interesting that manufacturing activity leads to an increased reliance on the sales tax. The reason is that manufacturing firms must compete in national markets and, thus, cannot be used as a means of tax exporting. Thus, states must shift their portfolio to other instruments such as the sales tax. Feldstein and Metcalf (1987) provide empirical evidence that deductibility under the federal income tax induces states to rely more on income, property, and sales taxes, and less on business taxes.[6]

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[5] Factors of production residing in other jurisdictions may share in the burden of tax imposed by one jurisdiction by earning lower returns. For example, a high effective corporate tax rate or property tax rate may cause mobile capital to locate in lower-tax jurisdictions, broadly depressing the returns to capital. For an individual state, tax exportation of this type is likely to be minimal because of the sheer size of the national market for capital. This form of tax exporting is not considered below, because it is not likely to be of much practical interest to state policymakers seeking to export taxes.

[6] Many states, including Maine, maintain incidence models that, by assumption or through empirical analysis, seek to account for tax shifting and identify economic incidence. Minnesota's model has received considerable attention for the depth and breadth of its model. The model is largely consistent with the discussion that follows in the text. The model indicates, for example, that business property taxes and the state franchise tax are borne primarily by businesses (i.e., their owners). But the model's documentation cautions that deviations from national patterns could disrupt this same pattern of incidence. It is interesting that the mining industry in Minnesota carries the highest effective tax rate of any sector, while financial services have the lowest burden. Minnesota has relatively unique deposits of taconite, while financial services are subject to highly competitive interstate tax pressures, which helps explain the state's tax policy. See State of Minnesota (2005). Mazerov (2002) provides a good overview and candid appraisal of state-incidence models.

The discussion below explores in some detail different mechanisms that might be used to export state and local taxes, relying on the simple tools of tax incidence.[7] Tourism taxes and the property tax are emphasized, but some remarks are also made regarding other taxes and methods of tax exportation. The practicality of the various exporting mechanisms is evaluated to help guide policymaking.

Tourism Taxes. Tourism tax exportation may take place directly, as non-residents remit tax payments and bear the economic incidence of the tax. This is probably the most common view of the tax-exportation process in the context of levies such as those on lodging. (Such levies fall on tourists as well as business travelers.) Tax exportation also may take place indirectly through the shifting of taxes imposed on service providers. For example, the statutory incidence of gaming taxes may fall on casinos, but the economic incidence and ultimate burden of these taxes is likely to fall heavily on both resident and non-resident gamblers.

Mak (2004) considers state and national taxes on tourism. He reviews the small empirical incidence literature and concludes that tourism taxes are borne largely by non-residents. In contrast, Blair, Giarratani and Spiro (1987) consider amusement taxes imposed by large cities, and find little shifting of these taxes to the consumers of concerts and theaters. The differences in these empirical findings are important and enlightening.

Consider first state and national taxes. Most states impose some form of tax on things such as lodging, amusements, and restaurants. (As discussed below, Maine's lodging tax is below the regional average and its restaurant tax is above the regional average. Maine does not tax amusement services, while the average in the region is above 6 percent.) So, both across states and within states, there is little that consumers can do to avoid such taxes. While consumers might choose to alter consumption patterns, there is likely some inelasticity of demand for tourism and recreational activities. Capital, on the other hand, easily can migrate across sectors of the economy to avoid the incidence of tourism-related levies, perhaps not in the short run, but certainly over the long run. Land is certainly immobile, but—like capital—it can be used for a variety of purposes outside of the tourism sector. And while labor may be somewhat immobile, there is still substantial mobility across occupations and sectors of the economy. The relatively high degree of elasticity on the supply side of the market, coupled with some inelasticity on the demand side, suggests that consumers will bear the brunt of tourism taxes.

Blair, Giarratani and Spiro (1987), on the other hand, consider amusement taxes in the context of urban taxing jurisdictions and suburban areas that do not impose the same levies. In this instance, consumers can choose relatively easily between taxable and nontaxable amusement activities. The presence of nearby non-taxed substitutes would limit

[7] Introductory textbooks in public finance provide the standard framework for tax-incidence analysis. See, for example, Rosen (2005). Tresch (2002) provides an advanced treatment of the subject matter. Fisher (2007) provides a very readable summary on property tax incidence.

the capacity of consumers to bear such burdens; the absence of non-taxed substitutes would increase the burden borne by consumers.

The lesson is that states (and localities with uniform levies) likely can export a considerable portion of the taxes imposed on tourism activity. But there are several caveats. First, as Mak (2004) anecdotally notes, onerous levies can backfire and substantially dampen tourism activity. This reduction in economic activity means that state residents—workers and property owners in particular—may end up bearing much of the incidence of the tax. If a jurisdiction has rent-related market power arising from unique resources or attributes, taxes conceivably can be set "high" relative to the taxes of other jurisdictions. This is why some states and localities can impose relatively high taxes on tourists (and non-resident property owners). Maine may have some market power due to its seacoast and natural environment. But other states in the region possess similar amenities and, thus, there are consumption substitutes for these state attributes. These factors limit the state's effective market power, and serve as a constraint on the ability to shift taxes to non-residents.

Second, Morgan, Mutti and Rickman (1996) use a multi-region computable general equilibrium model to show that even "successful" tax exporting does not necessarily lead to better economic growth or improved welfare.[8] So, if the policy goal is revenue generation, exporting may prove effective. But, if the policy goal is an improvement in economic well-being, tax exporting offers no guarantee that such improvements will be realized. This may be an important consideration with tourism taxes, as they are often used in tandem with the promotion of the tourism industry itself. But jobs in tourism-related sectors are often seasonal, low-paying and come without important benefits such as health insurance. For example, in 2004, the average wage in Maine's leisure and hospitality sector was $14,138, which was only 45 percent of the average for all private-sector jobs in the state ($31,393).[9]

A third caveat is that residents and business travelers will bear some of the burden of tourism taxes as noted above. State residents consume lodging and amusement services, they eat at restaurants, and they rent cars. The in-state burdens associated with tourism levies need to be carefully considered in evaluating tax-exporting opportunities. In some instances, as shown below, these in-state burdens can be substantial. But, as noted elsewhere in this report, the payment of "tourism" taxes by state residents may be appropriate if the same individuals receive public-service benefits (or impose unique externalities) and do not fund these services directly by the other taxes they pay to state and local governments.

Finally, an important lesson from Blair, Giarratani, and Spiro (1987) is that local-option tourism taxes may not be an effective mechanism for tax exportation to the extent that

[8] Morgan, Mutti and Rickman (1996) consider all taxes, including sales taxes and taxes on natural resources.
[9] Bureau of Labor Statistics, *Quarterly Employment and Wage Survey, 2004.*

there are nearby jurisdictions without the same levies on similar activities. And even if tax exportation does takes place, the burden may fall on state residents who reside outside the locality. Again, this may be desirable to the extent that these same residents derive benefits from the local taxing government or generate negative externalities in the community. While the local-option levies generate revenue and may help to diversify the local tax base, they also simply may add to the tax burden ultimately borne by state and local residents.

Property Taxes. Residential property and land may be held by residents of a state, but also residents of other states. Non-residents may own a home in one state and commute to work in another state, or they may own a second home or property in a state of non-residence. Taxing the property held by non-residents represents another tax-exporting opportunity, but, once again, supply and demand elasticities will determine who bears the ultimate burden of the tax. If non-residents have the opportunity to acquire property in any of a number of states, as is generally the case, this will limit the market power of the state seeking to export its property tax burden, as there will be considerable elasticity of demand. Within the state of Maine, there are significant rate differentials across municipalities giving non-residents the opportunity to choose across high- and low-tax jurisdictions. As a result, it may prove difficult for a single jurisdiction to export its property-tax burden. Given the inelasticity of land supply, relatively high property taxes on non-residents may lead to capitalization of taxes into land values. This capitalization is likely to be incomplete to the extent that in-state land has alternative residential, commercial, and industrial uses, which is typically the case. Generally, one would expect a higher degree of capitalization to take place in Maine municipalities characterized by high property tax rates.

The property tax on business is often viewed as a benefit tax, so businesses may be willing to pay the tax in exchange for the services derived from local government. But businesses would happily shift the property tax burden backward or forward to the extent allowed by market forces. For mobile firms that produce for a broad regional or national market, there are many jurisdictions in which potentially to locate production. But, property taxes are present in most localities across the country so firms cannot totally escape the property-tax burden. (Important exceptions are property-tax abatements and exemptions that are often offered by local governments as a tax incentive to highly mobile firms.) As such, firms are likely to bear much of the *average* property tax burden across localities. But in jurisdictions with above-average property tax rates, this extra burden generally will be borne by relatively immobile factors in the local area, especially land, which may be owned by non-residents. Unless the firm has market power in its product market, it has no capacity to shift the tax forward to consumers.

For firms that produce non-tradable goods and services for local markets, the situation may be somewhat different. There will be some inelasticity of consumer demand due to the limited availability of substitute goods and services from other jurisdictions. While the land used for production is immobile, the capital employed in the production process generally will be highly mobile. Together, these considerations suggest that property taxes

will be borne primarily by consumers and, to a much lesser extent, landowners. Some of these consumers may be non-residents.

Other Taxes. States often impose substantial taxes on the extraction and production of natural resources such as petroleum products, with the intent of shifting the tax forward to consumers in other jurisdictions. As noted, empirical evidence demonstrates that states with large mining and extractive industries rely less on income and sales taxes, suggesting the intent to shift the tax forward to final consumers. But, while the statutory incidence of the tax may fall on the producer, forward shifting is possible only to the extent that the producer has market power. Full forward shifting only will take place under rather unique circumstances (McLure 1981a). If a firm has a large market share, it will have considerable market-power *potential*. However, the exploitation of this potential is constrained by the elasticity of demand for the resource or product. If there are substitutes available, consumers can shift their consumption patterns in the face of high taxation, and avoid bearing the full burden of the tax. Thus, some of the tax is shifted back to the factors of production. While the result depends on factor-market conditions, workers and landowners are likely to bear the brunt of the burden shifted backwards; some of these landowners may be non-residents. The owners of mobile capital may be able to escape the burden of the tax by reallocating investment to other sectors and/or lower-tax states.

Sales taxes are imposed by both firms and consumers. For Maine, estimates suggest that about 43 percent of the sales-tax burden is carried by business (Ring 1999); the Maine Revenue Services (MRS) incidence model indicates that 11 percent of the sales tax is borne by non-resident consumers, while 27 percent is borne by business. Using the estimates from MRS, this leaves a residual of 62 percent that is borne by state residents, suggesting that the general sales tax is a highly imperfect means of exporting taxes.[10]

Corporate taxes are imposed on corporate profits and apportioned across the states by formula. As McLure (1981b) has argued, the apportionment formula effectively transforms the corporate income tax into a set of excise taxes that fall on the factors of the apportionment formula. Traditionally, most states used a three-factor apportionment formula that equally weighted sales, property, and payroll; the majority of states today now place additional, if not exclusive, weight on the sales factor. (Maine now double-weights its sales factor.) There is considerable controversy regarding who bears the burden of corporation income taxes. But if McLure's perspective is correct, it is likely that workers and landowners bear the lion's share of the tax under today's state corporate income tax. Like the sales tax, the corporate income tax represents a poor mechanism for trying to export tax burdens.[11]

[10] Gross receipts taxes, such as the longstanding tax in New Mexico or the new commercial-activity tax in Ohio, would have shifting effects that would parallel a sales tax. One undesirable consequence of such levies is the pyramiding of tax burdens through the production chain. Estimates for New Mexico suggest that almost one-third of all revenue collected from the tax is the result of pyramiding ("Study Analyzes Pyramiding of Gross Receipts Tax," *State Tax Notes* January 16, 2006, p. 114).

[11] More generally, Oakland (1992), Brown (1992) and Burns (1992) argue that is impractical to seek to export taxes by imposing them on business.

Some cities, such as Pittsburgh, have imposed payroll taxes to fund services generally, but also to deal with large commuter populations and the costs that they are perceived to impose on city services. Such taxes are extremely unpopular. The taxes can be avoided by simply relocating jobs and payroll outside city boundaries, a behavioral response that may aggravate sprawl.

Deductibility under Federal Income Taxes. A final and rather distinct mechanism for tax exporting is deductibility under the federal income tax. Individuals who itemize, and business taxpayers who claim deductions, effectively shift some of the state and local tax burden to federal government taxpayers. Of course all states with personal and corporate income taxes do the same thing, so that net gains only accrue to states that have above-average burdens. (States with sales taxes can also shift some of their burden to federal taxpayers under the current temporary policy that allows for sales tax deductibility.) States might seek to enhance this form of exporting by maximizing their use of deductible tax instruments. In 2002, 32.3 percent of Maine federal tax returns took itemized deductions versus 34.7 percent for the entire United States. State and local tax deductions were 6 percent of state adjusted gross income in Maine, but only 5.1 percent for the United States as a whole (Reuben 2005).

IV. STATE TAX PRACTICE

This section places Maine's policy toward tax exporting in a national and regional context. The focus falls largely on the New England region and the broader region identified by Longwoods International (2005) as Maine's market area for regional tourism activity. The discussion addresses selective taxes on services, tourism taxes, and the residential property tax.

Services and Tourism Taxes. The sales tax is structured generally to fall on tangible goods, unless a good is enumerated for exemption. Services, on the other hand, are generally exempt from state sales taxes unless specifically enumerated for taxation under the general sales tax or a special excise tax. Table 1 provides a summary drawn from a 2004 survey conducted by the Federation of Tax Administrators on the state taxation of services. Included are standard tourism taxes such as lodging and rental car levies, as well as specific services commonly consumed by visitors. Data are presented for individual states as well as regional and national averages for those states with a tax on a specific activity. As is clear from the table, Maine generally exempts far more service categories than other regional states, as well as other states across the country. Most states in the region tax some form of amusement activity, rentals, and lodging (discussed below), as well as aircraft rentals. Of the 19 service activities shown in the table, 17 are taxed by 10 or more states nationwide.

There is clearly ample opportunity and good economic justification for extending the general sales tax or special excise taxes to additional service categories to enhance revenue yield and tax neutrality.[12] Application of the general sales tax rate of 5 percent certainly would not place Maine out of line with the majority of states for most of the services shown. At the same time, it should be recognized that, on a case-by-case basis, there may be little revenue generated from the taxation of services. Moreover, compliance probably will be quite weak, as is generally the case with small service providers and a sizable share of the tax burden is likely to fall on state residents. For example, the potential tax base for fishing and hunting-guide services is likely very small and the receipts from such activities can be easily underreported. Likewise, parking lots, billiard parlors, bowling alleys, and coin-operated video games are likely to be consumed extensively by state residents. The policy goal of tax exporting must be balanced against these practical considerations.

Table 2 focuses on four common tourism levies, including restaurant food, motor vehicle rentals, admissions and amusements, and lodging. While some of the information is analogous to that presented above, the table illustrates the ways in which the general sales tax interacts with specific state levies on services and restaurant food. In some cases, the

[12] Fox and Murray (1988) discuss the strengths and weaknesses associated with extending the sales tax to services.

taxes are substitutes for one another, while in other cases, they are additive. The combined state rate is what is relevant in terms of revenue and economic behavioral effects.

Maine's 7 percent tax rate on restaurant food places it slightly above the regional average of 6.12 percent, while the lodging tax of 7 percent falls slightly below the regional average of 8.12 percent. Maine's motor-vehicle rental rate stands at 10 percent, well above the regional average of 7.04 percent. Maine's rental-car tax rate ranks among the highest in the nation, matching the top rates in Alaska, Texas, and Virginia.[13] As noted, Maine does not impose any tax on admissions or entertainment. Other taxing states in the region apply an average 6.14 percent combined tax rate on admissions and entertainment services. It is important to note that, in some instances, local levies may apply to the activities shown in Tables 1 and 2. For example, Rhode Island allows a 1 percent local option rate on restaurant food and lodging, and Massachusetts enables a maximum local rate of 4.5 percent on lodging.[14]

States outside the region display considerable variation in taxing the activities shown in Table 2. Generally the states apply their retail sales tax or special levies on restaurant food, as is the case with Maine and nearby states. Arizona and Florida apply the state sales tax rate (5.6 percent and 4 percent, respectively) to certain amusements and rentals; Florida applies a 4 percent rate to coin-operated amusements. Montana relies on a 4 percent state-lodging tax plus a 3 percent rate on accommodations and campgrounds. Hawaii's general excise tax of 4 percent applies to most consumption items, while a separate 7.25 rate applies to lodging. South Dakota is unique in adding a 1 percentage point surcharge to its 4.5 percent vehicle-rental rate in the June-September period.

There appears to be less capacity in Maine to raise classic tourism taxes than taxes on service activities, including admissions, and amusement and entertainment services. The restaurant and vehicle-rental taxes are currently above the norm within the tourism region around Maine; there is somewhat greater capacity for the lodging tax, which is below the regional average. The critical issue from an exporting perspective is the price elasticity of demand for these activities, a question that goes well beyond the scope of the current study.

Residential Property Tax. The primary mechanism for increasing the property-tax burden on non-residents is to confine property-tax relief to state residents. Most states provide some form of homestead exemption or credit for principal residences; similarly, most states provide circuit-breaker relief for lower-income property owners (NCSL, 2002). In Michigan, residential homesteads are simply exempt from the local school property tax. Such programs are typically financed in part or in whole by general-fund revenue and broad-based state taxes like the income tax, as is the case in Maine.

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[13] Direct correspondence, Mandy Rafool, National Conference of State Legislatures (NCSL), memo dated January 9, 2006.

[14] NCSL (1999) shows now-dated local option rates, as well as general sales and special excise-tax rates for the tourism levies discussed in the text. NCSL is in the process of updating these tax rates.

Tables 3 and 4 present information on homestead exemption and circuit-breaker programs, as of 2005, for states within Maine's tourism region. Both provisions are generally available to state residents, and apply only to the primary residence. All states in the region other than Vermont provided some form of homestead relief in 2005. Maine's homestead exemption is available to taxpayers of all ages, as with the programs in the District of Columbia, Maryland, New Jersey, and New York. The state's exemption level is modest when compared to the District of Columbia and New York.

In January 2005, the Maine legislature adopted *LD 1* (as the new law is commonly referred to), which almost doubled the homestead exemption for state residents to $13,000. Local governments are compensated by the state for one-half of this increase, putting upward pressure on property-tax rates. While the effect may be to increase the burden carried by non-residents, over time, it may entail higher taxes for businesses across the state. This is not a good outcome, given the high property-tax burdens that businesses already confront in Maine. However, the package of changes included in *LD 1* actually translated into a $10 million reduction in business tax burdens in 2005, according to Maine Revenue Services.

All states in the region other than Delaware offer circuit-breaker relief, as shown in Table 4. The maximum benefit level under Maine's circuit breaker is generous relative to other states in the region. Like the homestead exemption, Maine adjusted its circuit-breaker program following implementation of *LD 1*. Allen and Woodbury (2005) describe the new program and show that it has generally added to the benefits received by lower-income property owners. The revised program is equivalent to a cap of 6 percent of income for most households, with a $2,000 maximum benefit level (versus $1,000 in prior years). Benefits are phased down to zero for single-person households earning at least $74,500 and multiple-person households earning at least $99,500.

To place the region in context, it is worth comparing some other states that are destinations for tourism and second-home ownership. In 2005, Florida provided a homestead exemption of $25,000 of assessed value, while North Carolina gave residents aged 65 and over a $20,000 exemption (or 50 percent of appraised value, whichever is greater). Arizona exempted 35 percent of school taxes, subject to a $500 benefit cap. Hawaii's homestead exemption starts at $40,000, and grows with the age of the property owner. The homestead programs that prevailed in these states in 2005 were more generous than the program now offered in Maine.

Neither North Carolina nor Florida granted circuit-breaker relief in 2005. The circuit-breaker program in Arizona for low-income elderly households was less generous (offering a $502 maximum benefit), while the relief program in Montana was much more generous (allowing a 20 percent to 70 percent reduction) than that in Maine. The circuit-breaker program in Hawaii is available to those over 55 with income less than $20,000, and offers a

$500 maximum benefit. Maine's revised circuit-breaker relief mechanism compares very favorably to these other states.

There are other mechanisms that have been used to shift property-tax burdens away from state residents. For example, Florida used a constitutional amendment (the Save Our Homes initiative) in the 1990s to cap the growth of homestead residential property values at no more than 3 percent per year. While the goal of the program was to reduce the tax burden on state residents, critics contend that it has generated a raft of problems. One problem has been a lock-in effect for existing residents; if a household sells its home and buys another home, the new home is appraised at fair-market value, leading to a sharp jump in property taxes. A second problem is higher tax burdens for businesses.[15] As noted, Montana has chosen a different approach, and defines its homestead exemption as a percentage of market value, a percentage that generally increases over time. This would appear to avoid the lock-in problem associated with the Florida mechanism, but may still translate into increased tax burdens on business. Finally, Utah has a classification system wherein primary residential property is assessed at 55 percent of value, while all other property is assessed at 100 percent of value. Minnesota applies a higher top rate to residential non-homesteads than residential homesteads. (See NCSL 2002a.)

Together, this discussion suggests that Maine could increase its property tax relief for primary residences and not fall out of line with regional states or selected tourism states around the country. The homestead exemption would be a good option since it requires no constitutional change and its value is modest when compared to the circuit breaker. A higher homestead exemption would shift the tax burden to non-resident as well as resident owners of second homes. Since these are state relief programs, local governments would have to be held harmless for at least half of the resulting revenue loss. Thus, the state would need to reallocate revenue or find new revenue through tax-base expansion and/or rate increases to fund their share of property-tax relief. Both paths are problematic for state government. Local governments could increase local property tax rates to make up for their revenue loss. But this would increase the tax burden on business, which is already high by national standards; a sizable share of this burden would likely be shifted back to workers and landowners.

[15] See www.HeraldTribune.com for background. The weekly *State Tax Notes* has briefly summarized policy proposals to deal with some of the consequences of the Save Our Homes constitutional amendment. While part of the motivation for this amendment was to protect residents from higher tax burdens, there was the related policy goal of limiting the growth of government spending.

V. Revenue Options for Tax Exporting

This section considers several options for Maine to increase tax exporting. The discussion is confined to standard tourism levies, amusement and recreation services, short-term automobile rentals, and the residential property tax. The corporate income tax is not considered, as it is not an effective mechanism for tax exporting due to tax-shifting opportunities. The general sales tax is not considered, as the majority of its burden falls on state residents.

Estimates of revenue yield and the share of the tax burden borne by residents, non-residents, and the business sector from higher taxes on prepared food and lodging are presented in Table 5.[16] Increasing the tax rates on prepared food and lodging by 1 percentage point to 8 percent would generate total revenue of $17.7 million and $6.9 million respectively. Increasing tax rates by an additional percentage point would yield slightly smaller incremental amounts of revenue due to behavioral effects that would reduce the size of the tax base. Note that the resident burden on prepared food is substantial at 66.2 percent, versus 31.6 percent for non-residents and 2.1 percent for businesses. While the share of the burden of the lodging tax on residents is smaller at 23.0 percent, it remains significant.

Table 6 shows the effects of imposing a tax on various amusement and recreation services. For the other activities listed in Table 1, there are simply too little data to arrive at precise estimates of revenue yield and distributional consequences. In most, if not all cases, the revenue yield from taxing the other components enumerated in Table 1 would be quite modest. Imposing the 5 percent state sales tax on amusement and recreation activities would produce $21.9 million in revenue, while imposing the special 7 percent excise tax would yield $36.3 million in revenue. But, as shown in Table 6, almost two-thirds of this overall burden would be borne by state residents. "Other amusements" offer the greatest aggregate revenue yield, but this category includes an array of small amusement activities in which the revenue yield would be small and tax compliance might be weak.

Standard tax-policy criteria such as neutrality would argue generally for taxing consumer services. However, if the policy goal is to export tax burdens to non-residents, the specific service categories considered above appear to be highly ineffective mechanisms. This is particularly the case with theaters, where about 90 percent of the burden would fall on state residents. However, if the consumers of these activities—whether they are residents or non-residents—impose unique public-service costs, than such levies may be appropriate in the spirit of benefit taxes.

[16] These estimates were graciously provided by the staff of Maine Revenue Services. All interpretations of the data in the text are those of the author.

Short-term automobile rentals are taxed at a 10 percent rate in Maine. A share of this tax burden is refundable to firms to offset the local excise tax on automobiles. A 1 percentage point rate increase is projected to yield about $500,000 in additional state revenue. Given the modest yield, the high prevailing rental car rate and the unknown impact on state residents, this appears to be a weak instrument for exporting taxes further.

For the 2004 tax year, MRS estimates that of the $104.3 billion in residential land and building property in the state, $28.1 billion (or 26.9 percent) represented second homes. Of this $28.1 billion in value, $19.3 billion (68.7 percent) is estimated to be owned by non-residents and the remaining $8.8 billion is owned by state residents. The current revenue cost of the $13,000 homestead exemption is about $65 million, which translates into $5 million in foregone revenue for each $1,000 of homestead value.

An increase in the homestead exemption to $20,000 would cost about $35 million in foregone revenue. A modest property-tax rate increase would be required to fund the local share of the revenue loss. However, the local burden would be uneven across municipalities; places with large shares of residential property would see the largest revenue loss, while places with large shares of second homes would see smaller revenue losses.

Expanding property tax relief through the homestead exemption is an attractive mechanism for exporting taxes to non-residents. But such a policy would not come without cost. To increase the burden on second homeowners and make up for the resulting revenue shortfall from higher homestead exemptions, local governments would have to increase property-tax rates. This would simply add to the high property-tax burden of businesses, and is likely to lead to increased tax-shifting back to land and workers in the state. Higher rates also would send a negative signal regarding the state's business climate. One alternative to help mitigate this problem would be to enable local taxation of tourism activity. While this would help the "average" municipality, in practice, there would not be a direct correspondence between where revenues were lost from property tax relief and where new revenues were generated from tourism activity.

The state presumably would fund at least one-half of any expanded property-tax relief mechanism for resident homeowners. Yet, the state would not generate any new revenue itself from higher property taxes on non-residents. As a result, existing rates and/or bases would have to be expanded to fund the state's share of financing the higher homestead exemption. Good candidates include admissions/entertainment services, other selective services, and perhaps the lodging tax. The important caveat, noted many times above, is that state residents will pay a considerable share of such taxes. The alternative would be to raise general tax burdens under the sales or personal income taxes. However, since residents pay the lion's share of these taxes, there would be little tax exporting to non-residents.

An alternative approach for property-tax exporting would be for the state to adopt a low-rate, statewide property tax with a large homestead exemption that would protect residents. MRS has considered a 5 mill statewide property tax based on data for 2004. Absent a homestead exemption, the tax would generate $681 million in revenue, with $160 million (23.5 percent) coming from businesses and $521 million (76.5 percent) coming from the residential base. Maine homestead property would bear $380 million of the residential burden, while non-residents, resident second-home owners, and renters would bear the remaining $141 million burden. A homestead exemption of $1 million would reduce the in-state burden on homestead property to only $6 million, yielding net state tax revenue of $307 million.

No tax policy change is without its drawbacks. A state property tax, as discussed above, is likely to encounter strong opposition from local governments, which would fear encroachment on their only meaningful instrument of taxation. Local governments would see no direct revenue gain from a statewide property tax, although some form of sharing arrangement might be developed. Members of the vocal property-tax limitation movement could be expected to rally against such a policy change. And businesses would confront higher property-tax burdens as well.

Nonetheless, the policy has some desirable properties. First, municipalities would not need to do anything with their existing local property tax, as there would be no need for revenue replacement. Second, the state property-tax mechanism would allow for a large degree of exporting, without the need to finance relief through taxes that would fall primarily on state residents.

A final option would be to introduce a classification system for different types of property in the state. About one-half of the states currently utilize some form of classification system (NCSL 2002a). And as noted, a small number of states treat primary residences differently from other property. The classification system could be applied at the local level to simply yield additional revenue for local governments or used to support lower property-tax rates. In principal, a statewide property tax that taxed second homes at a higher rate than primary residences also could be imposed. A primary strength of the classification system is that it would avoid higher taxes on businesses that ultimately may be borne by property owners and resident workers in Maine.

VI. CONCLUSION

This report has explored issues related to exporting state and local taxes, focusing on the state of Maine. Key conclusions are:

- There are many justifications for exporting tax burdens to non-residents. The best economic rationales are when non-residents impose public-service burdens or create externalities through their activities as visitors, or when there are unique amenities (rents) that non-residents are willing to pay for through taxation.
- In practice, the ability to export taxes to non-residents depends on market conditions, specifically, supply and demand elasticities in factor and product markets. Conceptual considerations and empirical evidence suggests that standard tourism taxes, in fact, can be exported to non-residents. The reason is that there is often some inelasticity of demand for tourism-related services, while the supply side of the market is characterized by a high elasticity.
- Some share of tourism levies, taxes on selective services, and higher property taxes on second homes will fall on state residents. This may be appropriate if consumption is related to the generation of unique service costs on state and/or local governments, or externalities for others.
- Maine currently imposes taxes on restaurants and motor vehicle rentals that are relatively high by regional and national standards, limiting the capacity to raise rates further. Rates on lodging are not as high, and admissions/entertainment services are not taxed at all, offering some potential for increased tax exporting. More generally the state exempts a wide array of services that are taxed by many states in the region and around the country. Services are good candidates for taxation, subject to the caveats raised above.
- Maine's homestead exemption is not as generous as exemptions afforded by many other states, including states that are attractive as tourism and retirement destinations. Expanding homestead relief is an appealing mechanism to consider for increasing tax exportation. The primary problem with such a policy under the current structure is funding relief through the state and local tax system. Local rates would need to be increased to make up for the higher homestead exemption, increasing tax burdens on business. The state would need to raise revenues as well, with much of the resulting burden falling on state residents.
- There are alternatives for tax exporting that would require changes to the state constitution. One option would be a low-rate, statewide property tax with a large homestead exemption. A second option is the introduction of a classification system that would treat primary residential property differently than other residential property. This alternative is especially attractive as it does not entail higher taxes on business property in the state.

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Table 1. 2004 Service Taxation Survey

Area	Income from taxi operations	Fishing and hunting guide services	Personal instruction (dance, golf, tennis, etc.)	Parking lots and garages	Amuse-ment park admission and rides	Billiard parlors	Bowling alleys	Circuses and fairs: admission and games	Coin operated video games	Member-ship fees in private clubs.
Maine	E	E	E	E	E	E	E	E	E	E
Connecticut	E	E	E [3]	6.000 [4]	10.000 [7]	E	E	10.000 [7]	E	10.000 [16]
Delaware	E [1]	0.384 [2]	0.384 [2]	0.384 [5]	0.384 [2]	0.384 [2]	0.384 [2]	E [12]	0.384 [15]	E [17]
District of Columbia	na	na	E	12.000	5.750 [8]	E	E	5.750	E	E
Maryland	E	E	E	E	10.000 [9]	10.000 [9]	E	10.000 [13]	10.000 [9]	E
Massachusetts	E	E	E	E	E	E	E	E	E	E
New Hampshire	–	–	–	–	–	–	–	–	–	–
New Jersey	E	E	E	E	6.000	E	E	6.000	E	E
New York	E	E	E	4.250 [6]	4.250	E	E	E [14]	E	4.250 [18]
Pennsylvania	E	E	E	E	E [10]	E	E	E	E	E
Rhode Island	E	E	E	E	E [11]	E	E	E [11]	E	E [11]
Vermont	E	E	E	E	6.000	6.000	6.000	6.000	E	6.000 [19]
NE Average	na	0.384	0.384	5.659	6.055	5.461	3.192	7.550	5.192	6.750
count of E states	10	9	10	7	4	8	9	6	9	8
count of T states	0	1	1	4	7	3	2	5	2	3
U.S. Average	4.155	4.863	3.481	5.549	5.264	5.315	5.130	5.526	4.806	5.460
count of E states	39	37	42	28	12	21	21	14	31	25
count of T states	8	10	6	20	37	27	27	34	18	22

Table 1. 2004 Service Taxation Survey - Continued

Area	Admission to cultural events	Pinball and other mechanical amuse-ments	Leases and rentals: personal property, short term (generally)	Short term auto-mobile rental	Limousine service (with driver)	Aircraft rental to individual pilots, short term	Chartered flights (with pilot)	Hotels, motels, lodging houses	Trailer parks - overnight
Maine	E	E	E [25]	10.000 [31]	E	E [41]	E	7.000 [46]	7.000
Connecticut	10.000 [20]	E	6.000	6.000 [29]	E	6.000	6.000 [43]	12.000 [44]	6.000 [52]
Delaware	0.384 [2]	0.384 [23]	0.288 [24]	0.288 [24]	0.384 [2]	0.288 [24]	0.384 [2]	8.000 [45]	E [53]
District of Columbia	E	E	5.750	10.000 [30]	5.750	na	na	14.500	na
Maryland	10.000 [21]	10.000 [9]	5.000	11.500 [32]	E [37]	5.000	E	5.000 [47]	E
Massachusetts	E	E	5.000	5.000	E [38]	5.000	5.000	5.700 [48]	E
New Hampshire	–	–	–	8.000 [33]	–	–	–	8.000 [33]	–
New Jersey	6.000	E	6.000 [26]	6.000	E	6.000 [42]	E	6.000	E
New York	E [22]	E	4.250	9.250 [34]	E [39]	4.250	E [39]	4.250 [49]	E
Pennsylvania	E	E	6.000	6.000 [35]	E [40]	6.000	E	6.000	E
Rhode Island	E [11]	E	7.000 [27]	7.000 [27]	E	E	E	12.000 [50]	E
Vermont	6.000	E	6.000 [28]	6.000 [36]	E	6.000	E	9.000 [51]	E
NE Average	6.477	5.192	5.129	7.087	3.067	4.817	3.795	8.121	6.500
count of E states	6	9	1	0	9	2	7	0	8
count of T states	5	2	10	12	2	8	3	12	2
U.S. Average	5.425	4.882	5.346	6.349	4.547	5.083	4.444	6.059	5.666
count of E states	15	29	3	2	34	7	36	1	19
count of T states	33	19	45	48	14	40	11	50	29

NOTES:

na not available

E exempt from tax
T taxable at various unspecified rates, or a number indicates percentage tax rate applicable

1. Annual license for 1st vehicle is $45, additional vehicles is $30.
2. Tax rate applies to gross receipts in excess of $50,000 per month.
3. Instructions at health & athletic club are taxable.
4. Metered space, lots less than 30 spaces, seasonal parking by exempt entity, employer provided parking in lot leased for 10 or more years, valet parking at airport and certain municipally operated facilities are exempt.
5. Tax rate applies to gross receipts in excess of $50,000 per month. Annual license fee of $75 plus $35 for each additional lot or garage.

6. Subject to additional local rates in New York City
7. Admission charges subject to admissions tax except for instruction charges, charges under $1 or movie admission under $5 and admission to events sponsored by nonprofit organizations. Admission to any carnival or amusement ride is exempt.
8. Movies, burlesque shows, sporting events, circuses, etc. are taxable at a rate of 5.75%; live performances of the legitimate theatre arts, exhibitions of paintings, sculpture, photography, etc. are exempt.
9. Counties, municipalities, and the Maryland Stadium Authority may impose an admissions tax. Admissions to events sponsored by 501(c)(3) or fraternal organization or volunteer fire company exempt. Maximum permitted rate shown.
10. Charges for rides alone are generally not taxable
11. Local municipalities may impose amusement taxes.
12. Outdoor music fees promoter = $750 annual license; Circus exhibitor = $750 annual license; Show person = $375 annual license.
13. Counties, municipalities, and the Maryland Stadium Authority may impose an admissions tax. Admissions to events sponsored by 501(c)(3) or fraternal organization or volunteer fire company exempt
14. Admissions to certain fairs can be taxable
15. Tax rate applies to gross receipts in excess of $50,000 per month. Plus $75 decal for each machine.
16. Dues and initiation fees are taxable, except for annual dues of $100 or less, or dues for club sponsored by nonprofit organization, club operated under lodge system or fraternal organization or lawn bowling clubs
17. Taxable at .384% if operated for profit.
18. Dues for fraternal societies and dues under $10 are exempt
19. If admission to amusement location like a health club or fishing club.
20. Exempt if by a nonprofit organization or at certain listed venues.
21. Jurisdiction may exempt concert or theatrical event. Many counties exempt these events.
22. Exemption applies to dramatic and musical arts performances.
23. Tax rate applies to gross receipts in excess of $50,000 per month. Decal $75 per machine.
24. Tax break down as follows: Lessors rate of 0.288% on gross receipts in excess of $150,000 per quarter; Lessees rate of 1.92% with no monthly/ quarterly exemption.
25. Lessor is considered the consumer and pays tax at acquisition, except furniture, audio tapes and audio equipment rented under "rent-to-own" arrangement. But rentals are taxable when in lieu of purchase.
26. Taxable if rented for 28 days or less.
27. Lessor may elect to pay on cost.
28. Persons who purchase tangible personal property for subsequent lease for less than entire period of its ownership by purchaser must pay tax on purchase and not collect tax on rent or lease.
29. Tourism Fund Surcharge Tax of $1 is imposed on the lease or rental of a passenger motor vehicle for each day up to 30 days. Motor vehicle rental surcharge of 3% is imposed for less than 31 days for passenger motor vehicle and truck rental.
30. 5.75% for vehicles not classified as fleet rental or lease vehicles and utility trailers and thus remaining subject to the D.C. Motor Vehicle Excise Tax.
31. For rentals of less than 12 months.
32. Taxable price includes all charges and extras related to rental.
33. No sales tax. Taxable under meals and rentals tax. Present rate is 8%.
34. Additional 5% tax on passenger vehicles applies
35. Rentals less than 29 days are subject to additional $2/day public transportation assistance fund tax.
36. Exempt from sales tax, but subject to special 5% short term motor vehicle rental tax. The rental of trucks is exempt from the 5% motor vehicle rental tax.
37. Transportation services exempt; equipment rental taxable.
38. See Regulation 830 CMR 64H.25.1(16).
39. Taxable if under the dominion and control of the customer.
40. Exempt unless a rental.
41. Lessor is considered the consumer and pays tax at acquisition. But rentals are taxable when in lieu of purchase.
42. Short term is 28 days or less.
43. Intrastate flights taxable when rendered by certificated air carrier on aircraft qualifying for resale.
44. 30 days occupancy or less.
45. Annual room charges: Hotel, Rm = $25, Suite = $30; Motel, Rm = $25, TH Rm = $15. Eight percent (8%) collected from occupants.
46. Exempt if over 28 days and rental is person's primary residence, or is in connection with education or employment.
47. Several local jurisdictions impose an additional tax on hotel/motel charges.

48. Exempt from sales tax but taxable under companion occupancy tax. Local option tax up to 4%.
49. Additional local rates apply. Permanent residents are exempt
50. Additional 5% hotel tax is imposed in addition to sales tax.
51. Exempt from sales tax, but taxable under companion meals and rooms tax.
52. Trailer rental taxable as rental of tangible personal property.
53. Annual fee of $10 per space.

Source: Federation of Tax Administrators <http://www.taxadmin.org>.

Table 2. Tourism Tax Rates, 2004

	Restaurants (prepared meals)			Motor Vehicle Rentals			Admissions/Entertainment			Lodging		
State	State sales tax	State excise tax	Combined state taxes	State sales tax	State excise tax	Combined state taxes	State sales tax	State excise tax	Combined state taxes	State sales tax	State excise tax	Combined state taxes
ME	5.00	7.00	7.00	5.00	10.00 [2]	10.00 [2]	5.00	–	–	5.00	7.00	7.00
CT	6.00	–	6.00	6.00	–	6.00	6.00	10.00 [6]	10.00 [6]	6.00	12.00	12.00
DE	0.624 [1]	–	0.624 [1]	0.288	–	0.288	–	–	–	–	8.00	8.00
DC	5.75	10.00	10.00	5.75	10.00	10.00	5.75	–	5.75	5.75	14.50 [9]	14.50 [9]
MD	5.00	–	5.00	5.00	(3)	5.00 [3]	5.00	–	5.00	5.00	–	5.00
MA	5.00	–	5.00	5.00	–	5.00	5.00	–	–	5.00	5.70 [10]	5.70 [10]
NH	–	8.00	8.00	–	8.00 [4]	8.00 [4]	–	–	–	–	8.00 [11]	8.00 [11]
NJ	6.00	–	6.00	6.00	–	6.00	6.00	(7)	6.00 [7]	6.00	–	6.00
NY	4.25	–	4.25	4.25	5.00	9.25	4.25	–	4.25	4.25	–	4.25
PA	6.00	–	6.00	6.00	–	6.00	6.00	–	6.00	6.00	6.00	6.00
RI	7.00	–	7.00	7.00	6.00 [5]	13.00 [5]	7.00	(8)	– [8]	7.00	5.00	12.00
VT	6.00	9.00	9.00	6.00	–	6.00	6.00	–	6.00	6.00	9.00	9.00
Average	5.15	8.50	6.16	5.12	7.80	7.04	5.60	10.00	6.14	5.60	8.36	8.12

Notes:
1. 0.624% of gross receipts.
2. In lieu of state sales tax on auto rentals for less than 1 yr; the general sales tax rate of 5.0% applies to rentals of more than 1 yr.
3. Short-term vehicle rentals: 23¢ for each multiple of $2; 8¢ for each $1 for a rental truck.
4. 8.00% of rent for each automobile for the first 180 days.
5. Surcharge of 6.0% of gross receipts from private rentals for each of the first 30 consecutive days.
6. Tax rate on admission to motion picture shows is 6.0%.
7. Casino control tax of 8.00% of gross revenues, plus 2.5% of gross revenues if required investments are not made.
8. 1¢ per 5¢ or fraction of admission charge at racing events where pari-mutuel betting is permitted.
9. 14.5% of gross receipts on transient room rentals.
10. 5.0% of rental charge plus surtax of 14.0% for a total state rate of 5.7%.
11. 8.0% of rent for each occupancy for the first 180 days.

*Source: "**2005 State Tax Handbook**," CCH, Inc.*

Average calc: only for states with rate.

Table 3. Homestead Credit and Exemption Programs, 2005

State	Age Limit	Description of Credits and Exemptions	Income limit
ME	All ages	Exemption of up to $13,000 of assessed value.	None
CT	65 and over	Municipalities are authorized to grant homestead tax relief.	None
DC	All ages 65 and over	Exemption of up to $38,000 of assessed value. Decrease in property tax liability of 50 percent if household adjusted gross income is less than $100,000.	 $100,000
DE	65 and over	A credit against school taxes assessed against principal residences is available for 50% of such taxes or $500, whichever is less, if authorized by a majority vote of the whole school board of the local school district.	None
MA	70 and over surviving spouses and low-income veterans	Exemption of $4,000 assessed value or $500, whichever is greater (local option to increase benefits).	None for seniors
NH	65 and over	Exemption of at least $5,000 if income is below $13,400 single or $20,400 married, and asset value is below $35,000.	$13,400/ $20,400
NJ	Under 65 65 and over and disabled	Deduction of property tax under income tax (up to $10,000) or $50 refundable credit. Credit of up to $250.	$10,000 single, $20,000 married $10,000
NY	All ages 65 and over	Up to $30,000 of assessed value is exempt from school taxes. Up to $50,000 of assessed value is exempt from school taxes.	None $64,500
PA		Local option homestead exemption may be no larger than one-half of the median assessed value of homestead property.	None
RI		Local governments may provide exemptions.	—

Note: This table does not include programs restricted to special groups, such as veterans and the disabled. Most states have these programs.

Source: David Baer. ***State Handbook of Economic, Demographic and Fiscal Indicators****, 6th edition. Public Policy Institute, AARP, 2006.*

Table 4 Property Tax Circuitbreaker Programs for Homeowners, 2005

State	Age Limit	Income Limit (single/joint)	Maximum Benefit
ME	62 and over All ages	$12,400/$15,300 $74,500/$99,500	$400 $2,000
CT	65 and over	$27,700/$33,900	$1,000/$1,250
DC	None	$20,000	$750
MD	All ages	Net worth less than $200,000 (aside from primary residence)	Up to taxes paid on the first $150,000 of assessed value
MA	65 and over	$45 000/ $67,000 residence less than $600,000	$840
NH	All ages	$20,000/$40,000	Credit up to state education property tax
NJ	65 and over	$200,000	$1,200
NY	65 and over All ages	$18,000 value of property cannot exceed $85,000 $18,000 value of property cannot exceed $85,000	$375 $75
PA	65 and over	$15,000	$500
RI	65 and over	$30,000	$250
VT	All ages	$88,000	1500 Based on differences in city and school property taxes and percentages of household income

Note: This table does not include programs restricted to special groups, such as veterans and the disabled. Most states have these programs.

*Source: David Baer. **State Handbook of Economic, Demographic and Fiscal Indicators**, 6th edition. Public Policy Institute, AARP, 2006.*

Table 5. Revenue Estimates FY2007: Prepared Food and Lodging ($)

	Prepared Food						
	Resident		Nonresident		Business		
Tax rate	Amount	Percent	Amount	Percent	Amount	Percent	Total
8.0%	$11,730,000	66.2	$5,600,000	31.6	$380,000	2.1	$17,710,000
9.0%	$23,290,000	66.2	$11,110,000	31.6	$770,000	2.2	$35,170,000

	Lodging						
	Resident		Nonresident		Business		
Tax rate	Amount	Percent	Amount	Percent	Amount	Percent	Total
8.0%	$1,580,000	23.0	$4,220,000	61.4	$1,070,000	15.6	$6,870,000
9.0%	$3,130,000	23.0	$8,370,000	61.4	$2,130,000	15.6	$13,630,000

Note: Estimates prepared by Maine Revenue Services.

Table 6. Revenue Estimates FY2007: Amusement and Recreation Services ($)

Tax rate	Motion Picture Theaters					Other Theaters				
	Resident		Nonresident			Resident		Nonresident		
	Amount	Percent	Amount	Percent	Total	Amount	Percent	Amount	Percent	Total
5.0%	$780,000	89.7	$90,000	10.3	$870,000	$310,000	91.2	$30,000	8.8	$340,000
7.0%	$1,060,000	89.8	$120,000	10.2	$1,180,000	$420,000	89.4	$50,000	10.6	$470,000

Tax rate	Spectator Sports					Commercial Participant Amusements				
	Resident		Nonresident			Resident		Nonresident		
	Amount	Percent	Amount	Percent	Total	Amount	Percent	Amount	Percent	Total
5.0%	$1,250,000	73.5	$450,000	26.5	$1,700,000	$5,780,000	65.9	$2,990,000	34.1	$8,770,000
7.0%	$1,680,000	73.4	$610,000	26.6	$2,290,000	$7,990,000	65.9	$4,130,000	34.1	$12,120,000

Tax rate	Other Amusements					TOTAL				
	Resident		Nonresident			Resident		Nonresident		
	Amount	Percent	Amount	Percent	Total	Amount	Percent	Amount	Percent	Total
5.0%	$6,870,000	67.1	$3,370,000	32.9	$10,240,000	$14,990,000	68.4	$6,930,000	31.6	$21,920,000
7.0%	$13,600,000	67.1	$6,680,000	32.9	$20,280,000	$24,750,000	68.1	$11,590,000	31.9	$36,340,000

Note: Estimates prepared by Maine Revenue Services.