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State of Maine
ONE HUNDRED AND TWENTY-SIXTH LEGISLATURE
COMMITTEE ON TAXATION

May 22, 2013

TO: Senator Dawn Hill, Senate Chair
Representative Margaret R. Rotundo, House Chair
Members, Joint Standing Committee on Appropriations and Financial Affairs

FR: Senator Anne M. Haskell, Senate Chair
Representative Adam A. Goode, House Chair
Joint Standing Committee on Taxation

RE: Taxation Committee Additional Report of Recommendations for the Biennial Budget

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We are writing to provide our final recommendations to offset the items that we rejected in *LD 1509, 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, 2014 and June 30, 2015.* Please note that we are not unanimous on all recommendations; we have provided information for both majority and minority reports with members of each report listed.

<u>Majority Report</u> – Our goal is to provide a range of options as an alternative to the property tax increases proposed in the Governor's biennial budget. Except as otherwise noted, members include Senator Haskell, Senator Millett, Representative Goode, Representative Stanley, Representative Libby, Representative Tipping-Spitz, Representative Moonen and Representative Brooks.

The Governor's proposed changes to Municipal Revenue Sharing, the Homestead Program and the "Circuit Breaker" would result in tremendous property tax shifts to Maine taxpayers. For that reason, we chose to reject those initiatives.

We do not make these recommendations without seriously considering their implications. The question before our committee was not whether this budget raises revenue, but whether it raises property taxes.

Two things are clear about the Governor's proposed budget:

(1) It results in one of the largest tax increases in Maine history, including over $400 million in property, income and sales tax increases; and

(2) This property tax increase is primarily the result of the unfunded tax cuts passed in the 125th legislature, which total over $400 million in the coming biennium.

Therefore, the Majority Report strongly recommends a restoration of the tax system that existed prior to the 125th Legislature, with minor changes.

<u>Recommended Solution</u> – *Delay the income and estate tax code changes enacted by the 125th Legislature.*

The tax cuts passed in the 125th were not paid for; they are the primary reason for deep cuts to municipal revenue sharing, the circuit breaker, and the homestead tax exemption as proposed in the Governor's budget. Each of these programs is designed to provide property tax relief to Maine people, and, if they are unfunded, will result in higher taxes for Maine families and businesses.

Further, these unfunded tax cuts disproportionately benefit the wealthy. The average income tax decrease for someone earning $325,000/year is more than $3,000, compared to only $263 for the average Maine taxpayer and just $14 for a person earning less than $18,000/year. All but the highest income earners will see their property taxes rise by significantly more than the estimated income tax reduction. Thus, property taxes on Maine's low and middle income families are subsidizing an income tax decrease for a small group of wealthy taxpayers.

The tax cuts were passed in the context of accelerating growth in Maine's economy. However, that growth is fleeting and Maine's economy has stagnated; over the last two years, the national economic recovery has largely passed Maine by. It is our charge as members of the Taxation Committee to ensure that Maine's tax system treats every family fairly, invests in Maine people and places, reflects our values as citizens of Maine, and is pro-economic growth. We believe that the tax cuts passed in the 125th take us further from these goals and will harm our economy and our communities.

Specifically, we recommend a delay in the tax code changes as set forth in Public Law 2011, c 380, Parts M and N.

- Part M increased the estate tax exclusion to $2 million beginning January 1, 2013. We recommend delaying the increase in the estate tax exclusion until January 1, 2016. Revenue is estimated to increase by $60 million for the biennium.
- Part N changed the income tax rates for tax years beginning on or after January 1, 2013. We recommend a delay in rate changes until tax years beginning on or after January 1, 2016. We support the 0% bracket and higher personal exemption and standard deduction to allow 70,000 taxpayers to drop off of the tax rolls. An estimate of the revenue increase needs to be determined; however we estimate that this would restore $350 million in the biennial budget.

Delaying these tax code changes will restore approximately $400 million for the biennial budget, eliminating the inherent property, income and sales tax increases in the Governor's budget and ensuring Maine's tax system supports our economy and values.

<u>Other options</u> – If a delay in the tax changes is not possible, there are a number of other options the committee discussed that could partially offset the $400 million property tax increase contained in the Governor's budget. The options listed below are not intended to be cumulative - they are valuable as stand-alone options or could be combined to offset portions of the property tax shift. **It is *not* the majority report members' proposal that all of these options be enacted. Instead, our strong**

preference is our recommended solution. These options are loosely in order of preference should Appropriations not support our recommended solution.

1. *Enact tax equalization* – A tax equalization initiative, similar to that proposed in LD 1113, would impose a tax fairness assessment on the top 1% of income earners with an average effective tax rate on all state and local taxes that is lower than the average effective tax rate on all state and local taxes of the bottom 99% of income earners. An estimate of the revenue increase needs to be determined.
2. *Increase the meals and lodging tax* – Most of the majority report members support an increase on both meals and lodging to 10% with an estimated revenue increase for the biennium of almost $180 million. Senator Millett, Representative Brooks, Representative Libby, and Representative Moonen support an increase to 9% for the meals and lodging taxes, which is projected to increase revenue by approximately $120 million.
3. *Enact a temporary sales tax increase to 6%,* which is projected to increase revenue by approximately $150 million per year and could be crafted to sunset.
4. *Identify targeted savings* of $30 million through the formation of a task force to analyze loopholes and tax expenditures as detailed in the Tax Expenditures report.
5. *Enact ecommerce regulation* that requires out-of-state sellers to collect sales tax on purchases made by persons in the State, which is projected to increase revenue by $237,500 in FY14 and $380,000 in FY15.
6. *Increase the cigarette tax by $1.50 a pack and equalize the price of other tobacco products*. The cigarette tax increase alone is projected to raise between $65 million and $80 million annually. Four members (Representative Stanley, Representative Libby, Representative Moonen and Representative Brooks) believe a phased increase of $0.50 per year on cigarettes is a better approach.

Minority Report – The minority report members agree that restoring the homestead exemption, the Circuitbreaker program and revenue sharing should be priorities for the Legislature. Senator Thomas and Representative Jackson believe that this can be achieved through spending cuts and ask to be on record as opposing all tax increases.

Strong Supporters of LD 1496

Representatives Knight, Stanley, Libby, Marean and Brooks strongly support the comprehensive tax reform proposed in LD 1496 as a viable alternative to the cuts proposed in the Governor's budget and, more importantly, much needed long term tax reform that will stimulate economic growth, provide property tax relief and collect a fairer share of taxes from non-residents. Next week, we will receive revenue estimates and a distribution analysis from Maine Revenue Services. We will be glad to provide this information for consideration in your budget deliberations.

In addition, members of both the majority report and minority report support including funding for changes to the Maine Seed Capital program as proposed in LD 734 and amended by the Committee.

We appreciate the opportunity to provide this additional information. Please let us know if you need language or better fiscal estimates for any of the above initiatives.

cc: Members, Joint Standing Committee on Taxation
Maureen Dawson, AFA Committee Analyst