

Tax Reform & Relief Package

Overall Concept

Revenue-neutral tax reform package designed to cut the state income tax for Mainers, dropping the top income tax rate by over 20% from 8.5% to 6.5%; stimulate economic development; export tax burden; and stabilize revenues.

Because out-of-staters will pay more of a fair share, practically all benefits will flow back to Mainers; resident tax burden will be decreased by over \$75 million a year.

- **Mainers in every income category will benefit.**
- **Focus on income taxes will help stimulate economy.**

Impacts

Maine's income tax rate will go from one of highest in the nation to the middle-of-the-pack.

- Put more money in the pockets of Maine families
- Directly support small business (since most small businesses are partnerships or S-corps that pay taxes through individual income tax).
- Help change the perception of Maine as a high taxed state.
- Make Maine more competitive for business attraction and investment.
- Reduce incentives that drive some Mainers to become non-residents.

Mainers' tax burden (from ALL sources) will drop by more than \$75 million/year.

- Provide an overall tax decrease of between \$100 and \$500 for most Maine tax filers every year.
- Pump more money into Maine's economy.
- Encourage individuals to become Maine residents and provide incentives for owners of small businesses that file as individuals to locate in the state.

Maine's tax base will remain competitive in the areas where it is already, and become more competitive in others.

- Maine would still have a lower sales tax rate (5%) than the national average (5.75%).
- Maine would still have a narrower sales tax base than most states.
- Maine's meals and lodging tax will still be far below most travel destinations.

This plan would increase competitiveness for Maine businesses.

- A lower income tax, closer to the middle of the pack nationally
- Putting \$100-\$500 more in the pockets of Maine people, increasing incomes as fuel for the economy.
- Lower business taxes and create more appeal for business growth.

Maine's future tax revenues will be more stable.

- Lowering capital gains rate and broadening sales tax base will both reduce volatility.
- A more stable budget impacts the whole economy – businesses that contract with the state can better plan for the future.

The Time is NOW!

- Hard economic times demand action. Maine must not only spend wisely, but collect revenues wisely (in ways that export more tax burden and spur needed economic development).
- Maine will fill a budget gap of over 1 billion dollars this legislative session. It's foolhardy to think that any extra funds could be found to pay to lower taxes. But tax burden can be reduced significantly through a revenue-neutral tax reform plan. That's the only practical approach.
- Even AFTER any extra sales taxes are paid, Maine people will have an additional \$100-\$500 in their pockets each year
- We can't afford to leave \$75 million/year on the table. This is the time to act!

Bill Components

- **Lower top income tax rate from 8.5% to 6.5% and replace the current tiers with a progressive household credit (which lowers the effective tax rate *below* 6.5% for most for most Mainers).**
 - Taxpayers would choose between a standard deductible credit and an itemized deductible credit (based on the amount of state qualified itemized deductions on a taxpayer's federal tax return). *NOTE: This new system incorporates the popular deductions for mortgage interest and charitable giving while providing more benefit to most Mainers. Taxpayers will have a choice between taking a standard or itemized credit based on your federal income tax deductions.*
- Remove exemptions for select *consumer* services
 - Amusements and recreation
 - Rare and occupational repair and maintenance services, excluding home repairs
 - Taxi and limo services
 - Interstate telephone charges (*It was previously thought that Federal law barred states from instituting taxes on interstate telephone charges. It has since been resolved and states are allowed to, so many states have consequently imposed sales taxes.*)
 - Some personal property services such as dry cleaning, pet boarding, and storage units
 - Transportation and courier services
 - *NOTE: This is a drastically scaled-down version of what was proposed in 2007. The current focus is items that are exportable, discretionary, or counter-cyclical, and where the business is already collecting sales tax. Business to business services and certain consumer services (such as haircuts) are excluded.*
- Increase tax on prepared meals and lodging to from 7% to 8.5%, while simultaneously investing more funds in tourism promotion. Raise the tax on short-term car rentals from 10% to 15%. Increase the real estate transfer tax modestly for homes worth over \$500,000. Retain the RETT at current level (.44%), except that for a residential property sold for more than \$500,000, the amount over \$500,000 will be taxed at 1%.
- This is different from last year's plan because it places a greater emphasis on lowering the income tax rate and **does not extend the sales tax to items that are less exportable or to businesses that have not collected sales tax before.**

Timetable

- Bill was printed on March 17th. It is L.D. 1088.
- Bill is expected to be heard by Taxation Committee in late March or early April.