

# Crisis Cure

Published by The Maine Heritage Policy Center

Issue Four

August 17, 2008

## Maine Taxpayers Will Face Higher Income Taxes Than Those in Canada, France and Italy With Proposed Federal Health Care Surtax

By J. Scott Moody

Unfortunately, for Maine's taxpayers, the Legislature and Governor must not be talking with our Congressional delegation. On the one hand, Maine's state government has spent two years debating tax reform in order to improve the state's dismal business climate. A key component of the tax reform plan, LD 1495, was to reduce the top statutory marginal tax rate to 6.85 percent from 8.5 percent. [2] LD 1495 was recently signed into law.

On the other hand, the U.S. Congress and President Obama are debating health care reform. A key component of the legislation that is being debated in the U.S. House of Representatives, HR 3200 "America's Affordable Health Choices Act," includes a huge new income tax surcharge that will dramatically increase the top marginal rate. Clearly there is a disconnect between state policy goals and federal policy goals.

Table 1  
Combined Federal, State and Local Income Tax Rates for the U.S. States and OECD Countries [1]  
Calendar Year 2011

Rank	State/Nation	Top Rate	Rank	State/Nation	Top Rate	Rank	State/Nation	Top Rate
--	<b>Denmark</b>	<b>59.7%</b>	25	Oklahoma	52.2%	42	South Dakota*	47.3%
1	Oregon	57.5%	--	<b>U.S.</b>	<b>52.1%</b>	42	Tennessee*	47.3%
2	Hawaii	57.2%	26	Massachusetts	52.1%	42	Texas*	47.3%
3	New Jersey	57.1%	--	<b>Netherlands</b>	<b>52.0%</b>	42	Washington*	47.3%
4	New York	56.9%	27	Connecticut	51.8%	42	Wyoming*	47.3%
5	California	56.8%	27	Mississippi	51.8%	--	<b>Australia</b>	<b>46.5%</b>
--	<b>Sweden</b>	<b>56.4%</b>	27	Utah	51.8%	--	<b>Canada</b>	<b>46.4%</b>
6	Rhode Island	56.2%	30	New Mexico	51.7%	--	<b>France</b>	<b>45.8%</b>
7	Vermont	55.8%	30	North Dakota	51.7%	--	<b>Italy</b>	<b>44.9%</b>
8	Maryland	55.6%	32	Iowa	51.6%	--	<b>Spain</b>	<b>43.0%</b>
9	Minnesota	54.4%	32	Michigan	51.6%	--	<b>Portugal</b>	<b>42.0%</b>
10	Idaho	54.3%	34	Colorado	51.4%	--	<b>Switzerland</b>	<b>41.7%</b>
11	North Carolina	54.3%	34	Indiana	51.4%	--	<b>Ireland</b>	<b>41.0%</b>
11	Wisconsin	54.3%	34	Arizona	51.4%	--	<b>Greece</b>	<b>40.0%</b>
11	Ohio	54.3%	37	Pennsylvania	51.2%	--	<b>Poland</b>	<b>40.0%</b>
--	<b>Belgium</b>	<b>53.7%</b>	38	Montana	50.5%	--	<b>United Kingdom</b>	<b>40.0%</b>
14	Delaware	53.7%	39	Louisiana	50.1%	--	<b>Norway</b>	<b>40.0%</b>
14	Arkansas	53.7%	--	<b>Finland</b>	<b>50.1%</b>	--	<b>New Zealand</b>	<b>39.0%</b>
16	South Carolina	53.6%	--	<b>Japan</b>	<b>50.0%</b>	--	<b>Luxembourg</b>	<b>39.0%</b>
17	<b>Maine</b>	<b>53.5%</b>	--	<b>Austria</b>	<b>50.0%</b>	--	<b>Korea</b>	<b>38.5%</b>
17	Nebraska	53.5%	40	Illinois	50.0%	--	<b>Hungary</b>	<b>36.0%</b>
19	Kentucky	53.4%	41	Alabama	49.7%	--	<b>Iceland</b>	<b>35.7%</b>
20	West Virginia	53.1%	--	<b>Germany</b>	<b>47.5%</b>	--	<b>Turkey</b>	<b>35.6%</b>
20	Kansas	53.1%	42	Alaska*	47.3%	--	<b>Mexico</b>	<b>28.0%</b>
22	Missouri	52.8%	42	Florida*	47.3%	--	<b>Slovak Republic</b>	<b>19.0%</b>
23	Georgia	52.7%	42	Nevada*	47.3%	--	<b>Czech Republic</b>	<b>15.0%</b>
24	Virginia	52.5%	42	New Hampshire*	47.3%			

\* No state income tax

Source: Organization of Economic Cooperation and Development and Tax Foundation.

Reprinted with permission from: Dubay, Curtis S. and Riedl, Brian M., "Income Tax Surtax Should not Fund Government Health Care Expansion," Webmemo No. 2544, July 15, 2009, The Heritage Foundation.

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More specifically, HR 3200 will add three new marginal tax brackets to the federal income tax: a 1 percentage point surtax for income between \$350,000 and \$500,000; a 1.5 percentage point surtax for income between \$500,000 and \$1,000,000; and a 5.4 percentage point surtax for income over \$1,000,000. More disturbing, the legislation contains a trigger provision that if certain cost savings fail to materialize by 2012 the surtax will increase - the 1 and 1.5 percentage point surtaxes will rise to 2 and 3 percentage points, respectively.

Table 1 shows what the top marginal tax rate will be for the 50 states in 2011, when the proposed health care legislation would take effect and the first year after President Bush's tax cuts expire. Also shown are the top marginal tax rates for member countries in the Organization for Economic Cooperation and Development (OECD). Despite the recent efforts in LD 1495, Maine's combined federal and state marginal tax rate would top out at 53.46 percent! Among the states and OECD countries, Maine would have the 17th highest combined marginal tax rate among the U.S. states and 19th highest among the U.S. states and OECD countries.

In comparison, Maine's next door neighbor, New Hampshire, has a significantly lower combined marginal tax rate at 47.25 percent putting them in a nine-way tie for last place among the U.S. states. Additionally, only three OECD countries will have a higher marginal tax rate than Maine: Denmark (59.73 percent), Sweden (56.44 percent) and Belgium (53.7 percent). Maine's nearest international competitor, Canada, falls below both Maine and New Hampshire at 46.41 percent.

In fact, 21 of the 30 OECD countries will have marginal tax rates below any U.S. state including such "Socialist" countries as France (45.8 percent) and Italy (44.9 percent). Ironically, the two former Communist countries which are members of the OECD have the lowest marginal tax rates of them all—the Slovak Republic (19 percent) and the Czech Republic (15 percent). Makes one wonder what they know that we don't.

Maine's Congressional delegation must not work against the efforts of Maine's Legislature and Governor. The proposed income tax surtax will undo much of the recent attempt to lower the income tax burden on Maine's families and small businesses. These higher tax rates will also harm's Maine's economic competitiveness both at home and abroad.<sup>[3]</sup>

#### Notes and Sources

- [1] Rates include national and average sub-national rates. In the U.S., state rates equal the 39.6% top federal rate under the Obama Budget, plus the top rates for each state (including local income taxes), the 5.4 percent surtax, the 2.9 percent Medicare tax, and accounts for federal and state deductibility and other federal adjustments. The national U.S. rate is calculated using an the average of state income tax rates. The source data can be found here: <http://www.taxfoundation.org/publications/show/24848.html> and <http://www.oecd.org/dataoecd/46/18/2506453.xls>
- [2] Under LD 1495, the effective marginal tax rate and the statutory marginal tax rates can vary dramatically with effective rates ranging from -7 percent to 8 percent. For more information, see: <http://www.mainepolicy.org/library/resources/179.pdf>
- [3] For more information on the dramatic increase in the size and scope of the federal budget and deficit, see: <http://www.whitehouse.gov/omb/budget/fy2010/assets/summary.pdf>

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