

Path to Prosperity

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Higher Taxes? Not with Maine's High Tax Burden

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As Maine's state government grapples with budget shortfalls in the Department of Health and Human Services budget and a recent lawsuit aimed at rolling-back necessary pension reforms, the calls for higher taxes on Maine's beleaguered private sector will grow louder. However, policymakers must resist the siren call for higher taxes as Maine's tax burden is significantly higher than commonly believed.

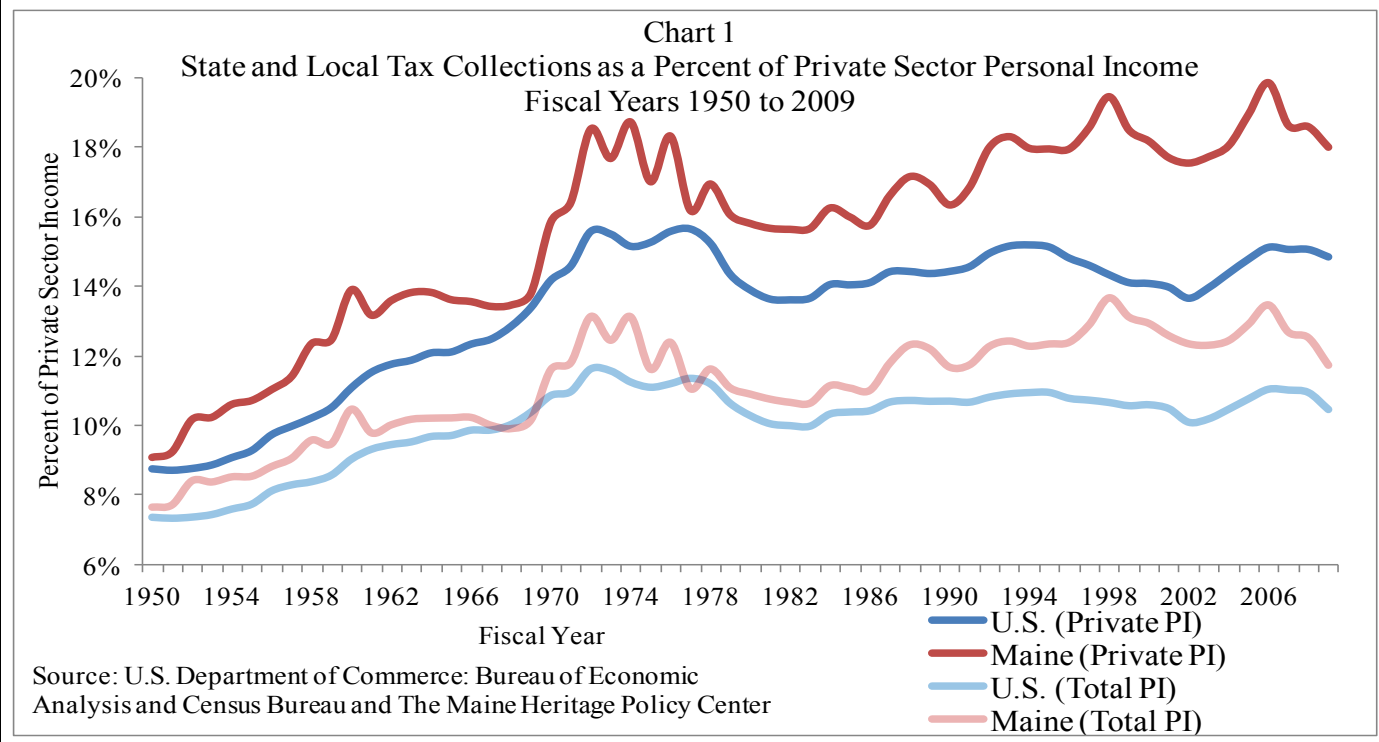
The standard methodology for calculating tax burdens is to divide total state and local (S&L) tax collections by total personal income. This method is flawed because personal income includes both private and public sector sources of income. This distinction between the two sectors is important because only the private sector creates new income.

The public sector can only redistribute income through taxes and spending. More specifically, public sector spending consists of personal current transfer receipts (Medicare, Medicaid, Social Security, etc.) and government employee compensation (federal, state and local).

As shown in Chart 1, under standard tax burden calculations, Maine's S&L tax collections as a percent of personal income was 11.7 percent in Fiscal Year (FY) 2009. Nationally, the tax burden was 10.5 percent.

However, as previous research has shown, Maine's private sector as a percent of personal income was a dismal 63.9 percent in 2010—the 12th smallest private sector in the country.[1] In the long run, this matters to overall economic well-being since, on average, a 1 percentage point increase in the size of the private sector yields an increase in household income of \$2,561.

Therefore, a more appropriate measure of Maine's tax burden is using S&L tax collections as a percent of private sector per-



sonal income. Under this measure, as shown in Chart 1 and Table 1, Maine's tax burden soars to 18 percent of private sector personal income in FY 2009—the 6th highest in the country and the highest in New England. In fact, Maine's tax burden as a percent of private sector income is 54 percent higher when measured as a percent of personal income (11.7 percent versus 18 percent).

Additionally, the gap between the two measures has been growing steadily over time. As shown in Chart 1, in FY 1951 the tax burden as a percent of personal income was 7.6 percent while as a percent of private sector income was 9.1 percent—a smaller difference of 19 percent compared to 54 percent in FY 2009.

In conclusion, the standard tax burden calculation (as a percent of personal income) makes Maine's tax burden appear smaller than it really is when adjusting for the fact that Maine's private sector is one of the smallest in the country. As a result, this more realistic measure of Maine's tax burden should warn off policymakers from raising taxes on the private sector.

Notes and Sources:

[1] Moody, J. Scott, "Raising Taxes for DHHS Budget Would Cost Private Sector Jobs," The Maine Heritage Policy Center, Path to Prosperity, December 19, 2011. <http://www.mainepolicy.org/2011/12/raising-taxes-for-dhhs-budget-would-cost-private-sector-jobs/>

Table 1
State and Local Tax Collections as a Percent of Private Sector Personal Income
Fiscal Year 2009

State	Tax Burden	Rank	State	Tax Burden	Rank
United States	14.8%	--			
Alaska	36.9%	1	Montana	15.5%	18
Alabama	13.3%	41	Nebraska	14.3%	30
Arizona	13.6%	33	Nevada	13.4%	40
Arkansas	15.6%	16	New Hampshire	11.4%	49
California	14.8%	21	New Jersey	15.2%	20
Colorado	11.8%	48	New Mexico	17.4%	9
Connecticut	14.4%	28	New York	20.8%	3
Delaware	14.7%	23	North Carolina	14.7%	24
Florida	13.4%	39	North Dakota	18.0%	7
Georgia	13.5%	37	Ohio	15.5%	17
Hawaii	19.2%	4	Oklahoma	14.1%	31
Idaho	13.2%	43	Oregon	13.5%	35
Illinois	14.8%	22	Pennsylvania	14.4%	29
Indiana	15.4%	19	Rhode Island	16.1%	11
Iowa	14.7%	25	South Carolina	13.6%	34
Kansas	14.7%	26	South Dakota	11.2%	50
Kentucky	16.1%	12	Tennessee	12.0%	47
Louisiana	15.8%	13	Texas	12.5%	46
Maine	18.0%	6	Utah	13.5%	36
Maryland	13.9%	32	Vermont	17.6%	8
Massachusetts	12.9%	44	Virginia	13.3%	42
Michigan	15.7%	15	Washington	13.5%	38
Minnesota	14.6%	27	West Virginia	19.0%	5
Mississippi	16.8%	10	Wisconsin	15.7%	14
Missouri	12.6%	45	Wyoming	22.2%	2

Source: U.S. Department of Commerce: Bureau of Economic Analysis and Census Bureau and The Maine Heritage Policy Center

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Path to Prosperity is a special series of publications by The Maine Heritage Policy Center which focus on Maine's overspending and the resulting tax burden that threaten long-term, stable and sustainable prosperity. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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