

Path to Prosperity

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Where Have Maine's "Rich" Gone?

By J. Scott Moody, Chief Executive Officer

As Maine's state government grapples with a budget deficit, some legislators are calling for the repeal of Governor LePage's tax cuts for the "rich."¹ Such a proposal ignores the reality that Maine's previous top individual income tax rate of 8.5 percent has already pummeled high-income taxpayers, forcing them out of state or into nonproductive tax shelters. Consequently, Maine's economy suffers from underinvestment, a lack of jobs, and lower state revenue.

This study uses the most recent 2010 state tax data from the Internal Revenue Service.² Whether measured as a percent of all taxpayers or adjusted gross income, Maine has fewer high-income taxpayers earning more than \$200,000 or earning more than \$1 million when compared to the national average or neighboring New Hampshire (which has no individual income tax). In fact, despite having nearly identical populations, New Hampshire's millionaires significantly outnumber Maine's (984 vs. 513) and have more income (\$4.1 billion vs. \$1.3 billion).³

More troubling, Maine's high-income taxpayers have been persistently losing ground. Between 2001 and 2010, the adjusted gross income per taxpayer for Mainers earning over \$1 million grew by only 5.1 percent. In contrast, the national average grew by 12.3 percent and in New Hampshire by a whopping 55 percent. Despite starting at nearly identical levels in 2001 (\$2.5 million in Maine and \$2.7 million in New Hampshire), the average millionaire in New Hampshire has nearly double the income by 2010 (\$2.6 million vs. \$4.1 million).

Additionally, Maine's high-income taxpayers show a higher incidence of business ownership through vehicles such as partnerships and S-corporations (78.2 percent of taxpayers earning over \$1 million) versus the national average (74.2 percent). Since these are "pass-through" business entities, their taxes are paid through the individual income tax returns of the owners.⁴ Therefore, Maine's high-income taxpayers are more likely to be a hard-working business owner who only appears to be "rich" on paper due to this pass-through business income.

Rather than raising the tax burden on high-income taxpayers, Maine's policymakers should instead find ways to encourage them back into the state or into productive activities. If Maine had the same number of and average income of taxpayers earning more than \$200,000 as the national average, Maine's economy would have been up to \$4.8 billion larger in 2010 and had higher state individual income tax of up to \$410 million (taxed at 8.5 percent). Much of this would have been business income, meaning even greater investment, job creation, and revenue.

Unfortunately, Maine's policymakers, over the past few decades, decided to chase an ever shrinking pie of high-income dollars with ever higher tax rates. This has created a vicious cycle where Maine's high-income taxpayers are now fewer in number and poorer in income when compared to the national average or with neighboring New Hampshire. Governor LePage's reduction of the top individual income tax rate to 7.95 percent from 8.5 percent was an important step in reversing this vicious cycle and helping to grow the economic pie for all Mainers.

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Maine Has Fewer and Poorer High-Income Taxpayers

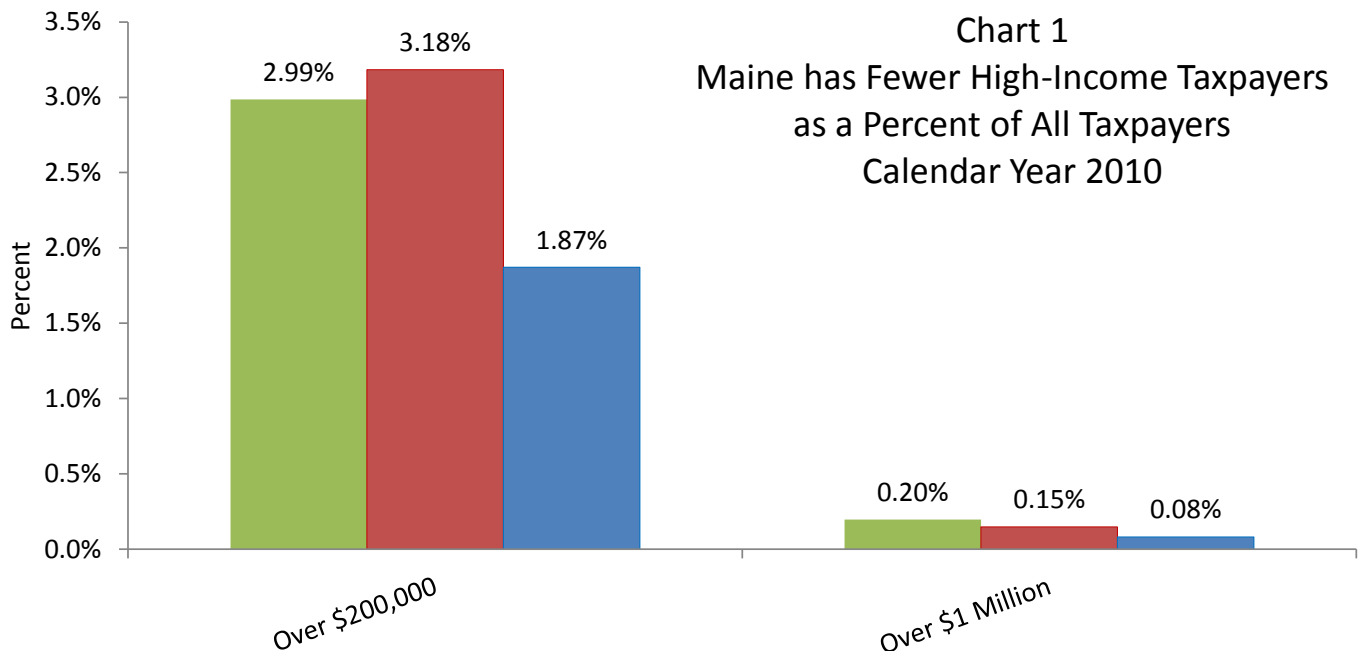
Chart 1 and Table 1 show that Maine has fewer high-income taxpayers as a percent of all taxpayers in 2010. Taxpayers earning over \$200,000 in Maine account for 1.9 percent of all taxpayers, which ranked as only the 41st highest in the country. The number of these taxpayers in Maine was 63 percent of the national average and 59 percent of New Hampshire.

State	Over \$200,000		Over \$1 million		Percent Difference	
	Percent	Rank	Percent	Rank	Over \$200,000	Over \$1 million
United States	3.0%	--	0.20%	--	63%	42%
Maine	1.9%	41	0.08%	48	--	--
New Hampshire	3.2%	10	0.15%	21	59%	55%

Source: Internal Revenue Service and The Maine Heritage Policy Center

Taxpayers earning over \$1 million in Maine accounted for 0.08 percent of all taxpayers, which ranked as only the 48th highest in the country (ahead of Mississippi and West Virginia). The number of these taxpayers in Maine was 42 percent of the national average and 55 percent of New Hampshire.

Maine clearly lags significantly behind in the number of high-income taxpayers.



Source: Internal Revenue Service and The Maine Heritage Policy Center

Income Cohort

■ United States ■ New Hampshire ■ Maine



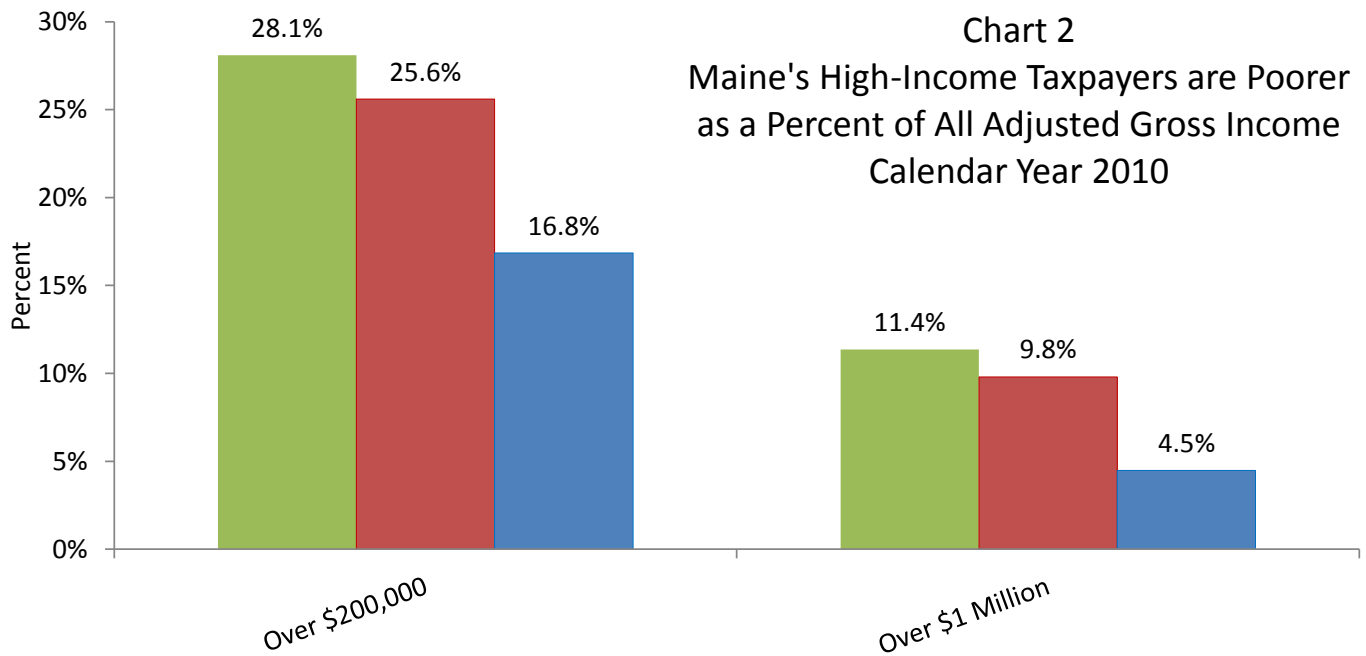
Chart 2 and Table 2 show that Maine has poorer high-income taxpayers as a percent of all Adjusted Gross Income (AGI) earned in 2010. Taxpayers earning over \$200,000 in Maine account for 16.8 percent of all AGI earned, which ranks as only the 49th highest in the country (ahead of West Virginia). The percentage share of AGI for these taxpayers in Maine was 60 percent of the national average and 66 percent of New Hampshire.

State	Over \$200,000		Over \$1 million		Percent Difference	
	Percent	Rank	Percent	Rank	Over \$200,000	Over \$1 million
United States	28.1%	--	11.4%	--	60%	39%
Maine	16.8%	49	4.5%	49	--	--
New Hampshire	25.6%	14	9.8%	12	66%	46%

Source: Internal Revenue Service and The Maine Heritage Policy Center

Taxpayers earning over \$1 million in Maine accounted for 4.5 percent of all AGI earned, which ranks as only the 49th highest in the country (ahead of West Virginia). The percentage share of AGI for these taxpayers in Maine was 39 percent of the national average and 46 percent of New Hampshire.

Maine clearly lags significantly behind in the level of income coming from high-income taxpayers.



Source: Internal Revenue Service and The Maine Heritage Policy Center

Income Cohort

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■ New Hampshire

■ Maine

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Maine’s High-Income Taxpayers are Small and Family Business Owners

Chart 3 and Table 3 show that Maine has more high-income taxpayers with partnership and/or S-corporation income as a percent of all high-income taxpayers in 2010. Of the taxpayers earning over \$200,000 in Maine, 43.6 percent of them claimed some partnership and/or S-corporation income—the 22nd highest in the country. The number of these taxpayers in Maine was 112 percent of the national average and 140 percent of New Hampshire.

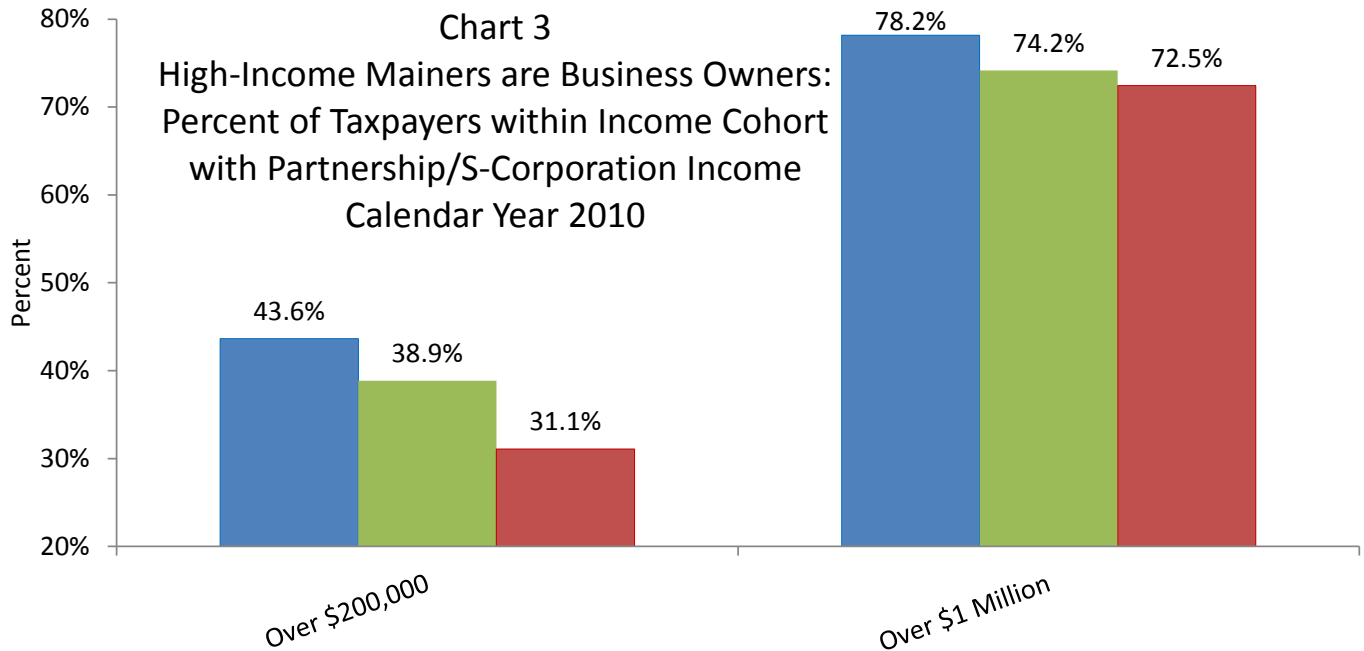
Table 3
High-Income Mainers are Business Owners: Percent of Taxpayer within Income Cohort with Partnership/S-Corporation Income
Calendar Year 2010

State	Over \$200,000		Over \$1 million		Percent Difference	
	Percent	Rank	Percent	Rank	Over \$200,000	Over \$1 million
United States	38.9%	--	74.2%	--	112%	105%
Maine	43.6%	22	78.2%	21	--	--
New Hampshire	31.1%	48	72.5%	44	140%	108%

Source: Internal Revenue Service and The Maine Heritage Policy Center

Of the taxpayers earning over \$1 million in Maine, 78.2 percent of them claimed some partnership and/or S-corporation income—the 21st highest in the country. The number of these taxpayers in Maine was 105 percent of the national average and 108 percent of New Hampshire.

There are clearly more high-income Mainers that rely on partnership and/or S-corporation income.



Source: Internal Revenue Service and The Maine Heritage Policy Center

Income Cohort ■ Maine ■ United States ■ New Hampshire

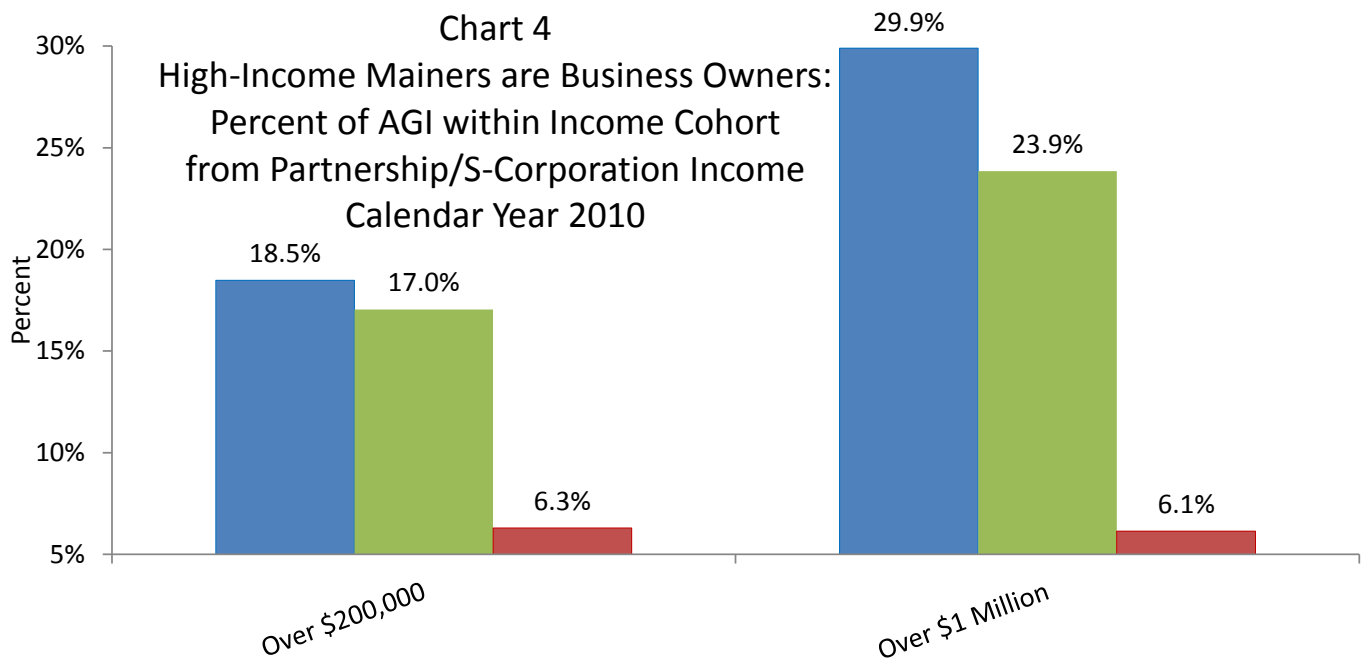
Chart 4 and Table 4 show that Maine has more high-income taxpayers with Partnership and/or S-Corporation income as a percent of all AGI earned in 2010. Of the taxpayers earning over \$200,000 in Maine, 18.5 percent of their income came from partnerships and/or S-corporations—the 22nd highest in the country. This percentage of business income for these taxpayers in Maine was 108 percent of the national average and 294 percent of New Hampshire.

State	Over \$200,000		Over \$1 million		Percent Difference	
	Percent	Rank	Percent	Rank	Over \$200,000	Over \$1 million
United States	17.0%	--	23.9%	--	108%	125%
Maine	18.5%	22	29.9%	17	--	--
New Hampshire	6.3%	50	6.1%	50	294%	487%

Source: Internal Revenue Service and The Maine Heritage Policy Center

Of the taxpayers earning over \$1 million in Maine, 29.9 percent of their income came from partnerships and/or S-corporations—the 17th highest in the country. This percentage of business income for these taxpayers in Maine was 125 percent of the national average and 487 percent of New Hampshire.

High-income Mainers clearly rely more on partnership and/or S-corporation income.



Source: Internal Revenue Service and The Maine Heritage Policy Center

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Growth in the Number and Income of High-Income Mainers Significantly Lags

Chart 5 and Table 5 shows the growth in the number of taxpayers, AGI, and AGI per taxpayer for high-income taxpayers between 2001 and 2010. Overall, the data over time is very discouraging in regards to Maine's high-income taxpayers versus the national average and New Hampshire. In fact, despite starting at nearly identical levels in 2001 (\$2.5 million in Maine and \$2.7 million in New Hampshire), the average millionaire in New Hampshire has nearly double the income by 2010 (\$2.6 million vs. \$4.1 million).

The number of Maine taxpayers earning more the \$200,000 grew to 11,696 in 2010 from 7,328 in 2001—an increase of 59.6 percent. In this category, Maine grew slower than the national average (66.9 percent), but faster than New Hampshire (57.6 percent).

The number of Maine taxpayers earning more the \$1 million grew to 513 in 2010 from 409 in 2001—an increase of 25.4 percent. In this category, Maine grew significantly slower than the national average (45.7 percent), but significantly faster than New Hampshire (12.7 percent).

The income of Maine taxpayers earning more the \$200,000 grew to \$5 billion in 2010 from \$3.4 billion in 2001—an increase of 50.5 percent. In this category, Maine grew significantly slower than the national average (64.1 percent) and New Hampshire (62.6 percent).

Number of Taxpayers									
State	2001			2010			Percent Change		
	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million
United States	130,977,219	2,576,035	193,798	144,002,309	4,299,325	282,311	9.9%	66.9%	45.7%
Maine	610,718	7,328	409	625,057	11,696	513	2.3%	59.6%	25.4%
New Hampshire	632,936	13,412	873	663,922	21,140	984	4.9%	57.6%	12.7%
Adjusted Gross Income (Billions of Dollars)									
State	2001			2010			Percent Change		
	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million
United States	\$6,144.619	\$1,385.980	\$562.007	\$8,095.748	\$2,274.474	\$919.039	31.8%	64.1%	63.5%
Maine	\$23.878	\$3.354	\$1.018	\$29.966	\$5.048	\$1.342	25.5%	50.5%	31.8%
New Hampshire	\$32.414	\$6.507	\$2.319	\$41.350	\$10.583	\$4.052	27.6%	62.6%	74.7%
Adjusted Gross Income per Taxpayer									
State	2001			2010			Percent Change		
	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million	Total	Over \$200,000	Over \$1 million
United States	\$46,914	\$538,028	\$2,899,961	\$56,220	\$529,030	\$3,255,414	19.8%	-1.7%	12.3%
Maine	\$39,098	\$457,735	\$2,489,083	\$47,941	\$431,568	\$2,615,932	22.6%	-5.7%	5.1%
New Hampshire	\$51,212	\$485,157	\$2,656,695	\$62,281	\$500,627	\$4,118,215	21.6%	3.2%	55.0%
Source: Internal Revenue Service and The Maine Heritage Policy Center									

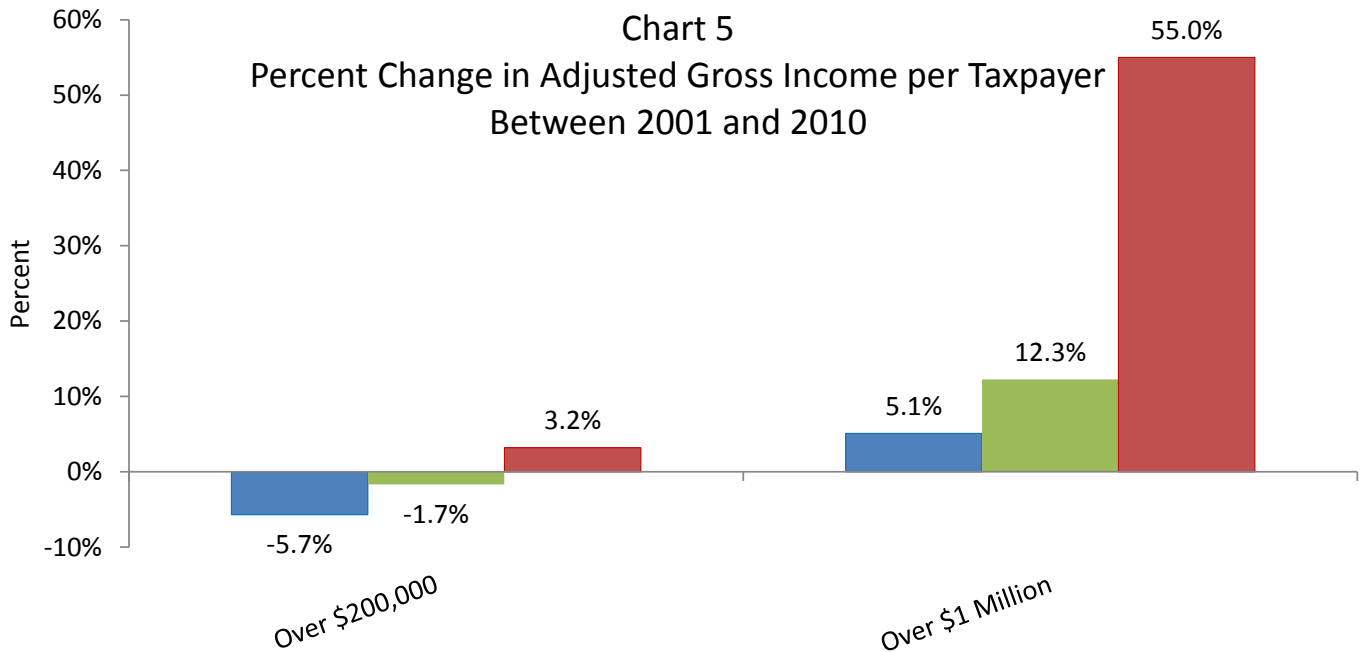
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The income of Maine taxpayers earning more the \$1 million grew to \$1.3 billion in 2010 from \$1 billion in 2001—an increase of 31.8 percent. In this category, Maine grew dramatically slower than the national average (63.5 percent) and New Hampshire (74.7 percent).

The income per taxpayer in Maine earning more the \$200,000 dropped to \$431,568 in 2010 from \$457,735 in 2001—an decrease of 5.7 percent. In this category, Maine fell significantly behind the growth rate in the national average (-1.7 percent) and New Hampshire (3.2 percent).

The income per taxpayer in Maine earning more the \$1 million grew to \$2.6 million in 2010 from \$2.5 million in 2001—an increase of 5.1 percent. In this category, Maine fell dramatically behind the national average (12.3 percent) and New Hampshire (55 percent).



Source: Internal Revenue Service and The Maine Heritage Policy Center

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Fewer and Poorer High-Income Taxpayers Means Less in State Individual Income Taxes

Increasing tax rates to increase revenue often creates a vicious cycle where a shrinking income pie begets higher tax rates. For too long Maine has been on this treadmill with predictable results. Table 6 shows how the relative shrinking number of and income from high-income Mainers has created a very large “opportunity cost” of lost income and tax revenue.

If the number of and income from Mainers earning over \$200,000 were at the national average then Maine would have seen up to an additional \$4.8 billion in income and up to an additional \$410 million in state individual income tax revenue (if taxed at 8.5 percent). If they were at New Hampshire’s level then Maine would have seen up to an additional \$5 billion in income and up to \$418 million in revenue.

If the number of and income from Mainers earning over \$1 million were at the national average then Maine would have seen up to an additional \$2.6 billion in income and up to an additional \$225 million in state individual income tax revenue. If they were at New Hampshire’s level then Maine would have seen up to an additional \$2.5 billion in income and up to \$210 million in revenue.

Table 6
Fewer and Poorer High-Income Mainers Means Less State Individual Income Tax Revenue
Calendar Year 2010
Billions of Dollars

Over \$200,000	AGI @ U.S. Average	Additional AGI	Additional Tax Revenue	AGI @ NH Average	Additional AGI	Additional Tax Revenue
Maine	\$9.873	\$4.82	\$0.410	\$9.964	\$4.916	\$0.418
Over \$1 million	AGI @ U.S. Average	Additional AGI	Additional Tax Revenue	AGI @ NH Average	Additional AGI	Additional Tax Revenue
Maine	\$3.989	\$2.647	\$0.225	\$3.815	\$2.473	\$0.210

Source: Internal Revenue Service and The Maine Heritage Policy Center

Conclusion

Maine is facing a serious erosion of its individual income tax base. The onset of “Demographic Winter” means there will be a smaller workforce in the future and, consequently, fewer taxpayers.⁵ This study highlights another problem which is the relative shrinking of Maine’s high-income taxpayer due, in large part, to Maine’s 9th highest individual income tax rate in the country (as of 2010).

Governor LePage’s recent reduction in the top individual income tax rate to 7.95 percent from 8.5 percent, among other changes, provides much needed relief to all Mainers, especially to Maine’s small and family business community. Ultimately, truly tackling the problems that face Maine’s economy will require the eventual elimination of the Maine income tax altogether.

Notes and Sources

¹ Shepherd, Michael, "Saviello Supports Tax Raise on Wealth," The Portland Press Herald, January 16, 2013. http://www.onlinesentinel.com/news/state-housesaviellosupports-tax-raise-on-wealthy_2013-01-16.html

² Internal Revenue Service: <http://www.irs.gov/uac/SOI-Tax-Stats--Historic-Table-2>

³ New Hampshire, following the lead of the federal government, did not have an estate for most of this time-period while Maine did have an estate tax. The lack of an estate tax also played a significant role in the large increase of income from high-income taxpayers in New Hampshire.

⁴ For more details, see: Moody, J. Scott, "Who are Maine's 'Rich?,'" The Maine Heritage Policy Center, April 10, 2012. <http://www.maineconomy.org/wp-content/uploads/Path-to-Prosperity-Who-Are-Maines-Taxpayers-031812.pdf>

⁵ Moody, J. Scott, "The Fiscal Costs of Demographic Winter," The Maine Heritage Policy Center, Volume 10, Issue 5, August 16, 2012. <http://www.maineconomy.org/wp-content/uploads/Path-to-Prosperity-Fiscal-Costs-of-Maines-Demographic-Winter-081612.pdf>

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Path to Prosperity is a 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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