THE
MAINE HERITAGE
POLICY CENTER
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CRACKING THE CODE

ANALYSIS OF THE GOVERNOR'S PROPOSED 2016-2017 BIENNIAL BUDGET

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TAKING ON
HISTORIC REFORM

Maine finds itself in a precarious position. Today, many residents are beginning to wonder if their kids will end up better off than they are. The base upon which social, economic and spiritual prosperity is built seems to be shifting beneath us, with dozens of problems that all seem to compound each other.

Maine now sees more deaths each year than births. Population levels are stagnant statewide, and evaporating in much of the central, western and northern regions. There are fewer children going through Maine schools each year, and those who remain here frequently leave the state after high school. Our once mighty industrial economy is now largely built on tourism and services. Despite being the oldest state in America, too many of our retired and near-retired citizens move away to states that boast not only warmer weather, but friendlier tax policies, which causes a flight of wealth, knowledge, and heritage.

This collection of problems has produced major public policy challenges that grow worse every year. The older and poorer Maine becomes, the more aggressive the call is for higher taxes, more spending in Augusta, and the creation of more state programs to supposedly address these issues.

Yet most of us realize that for however well intentioned those philosophies in state government were, we have gone too far in that direction. Maine cannot tax itself into prosperity, it cannot spend its way into recovery and it cannot subsidize its way to growth. Programs that have sought to make the suffering and indignity of poverty less acute do not solve the root cause of the problems that led to that poverty.

Maine is in desperate need of a radical change to the way it operates. We need to grow younger smarter, and larger. We need people to dream, build, invest, and cultivate in ways they can't even conceive of today. Instead of a devotion to managing Maine's slow and precipitous decline, we need to become more collaborative and efficient, and focus our attention on things that help change Maine for the better.

For decades, proponents of the status quo have dictated budget priorities in Augusta. With no regard for party or ideology, the *modus operandi* of political leaders who constructed, amended and voted on state budgets was to make only marginal changes, and "do things the way we had always done them."

Gradually over time, incremental growth in the size of government and the amount of money spent by government compounded itself, leading to a more complex tax code, as well as higher taxes to satiate the state government's need for money.

Occasionally along the way, certain leaders or groups of leaders would propose a major change to the way Maine collected or spent money, but almost without exception, those major reforms failed.

This year, Governor Paul LePage is seeking to change that decades long creative malaise by making fundamental transformations to the way state government operates. Whether you agree with his proposed reforms or not, it is difficult

to argue the point that the proposed 2016-2017 biennial budget would represent a major change.

The governor himself would admit that this budget is not an end to reform, but a waypoint along a pathway he wants the state to walk. LePage has called for a full elimination of the personal income tax, for example, which would go well beyond this current budget proposal.

To start the state down the path of reform, the governor proposes a number of changes:

1. A meaningful cut and restructuring of the personal income tax
2. A substantial cut and simplification of the corporate income tax
3. An elimination of the estate tax
4. A broadening and increase in the sales tax
5. A recalibration of the relationship between the state and municipalities, including an elimination of revenue sharing, and allowing municipalities to tax non-profit organizations

The governor argues that these changes are necessary to modernize the Maine economy, attract and keep wealth, allow seniors to remain residents, and grow our population base.

When evaluating these proposals, **The Maine Heritage Policy Center** will be asking a number of questions, which are at the core of our mission as Maine's preeminent free market policy think-tank:

Will this proposal limit, and shrink the size and scope of state government?

Will it result in a lower tax burden – at all levels – for Maine citizens?

Will it help encourage growth and opportunity?

Will it make our system simpler, and fairer?
Will it allow Mainers to more easily live and work in our state?

Will it help to break the cycle of dependency on the state?

Will the lives of Mainers be better as a result of this budget?

This report contains a full evaluation of the contents of the governor's budget, as well as a set of recommendations to policymakers in Augusta, to help sort through the proposal itself, and pass a quality budget that will truly improve the lives of the citizens of Maine.

It is our goal that this report will help illuminate what is in the governor's proposal, and be responsible for helping to ensure that Maine lives up to its motto if Dirigo – *I lead*.

Matthew Gagnon
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Policy Analyst

THE STRUCTURE OF
THE BUDGET

The LePage budget represents two specific types of proposals.

The first is the hard and specific spending numbers that the administration has asked for in the two-year biennium of 2016 and 2017. This represents what most people consider *the budget*, as it is a tangible set of numbers that allow us to set targets for receipts and expenditures.

The second, and arguably more important set of proposals, are the substantive changes to Maine law that accompany the budget, including changes to Maine's tax code.

In this instance, these initiatives are representative of adjustments to a number of things that will impact the budget beyond the biennium. Most notable are changes to the rate and scope of the personal income tax, the corporate income tax, the estate tax, among many other changes.

Beyond these higher profile and widely discussed changes, there are a number of complex but dramatic changes to the functioning of state government.

One such change is an alteration to the formula used by the state to assist municipalities with the cost of the General Assistance program. By revising the formula, the state will provide more money up front to cities and towns, while also incentivizing them to make judicious use of their expenditures.

A full accounting of all of the proposed spending, as well as changes in Maine law can be found at maine.gov/budget/.

DHHS Changes

The governor's proposal contains many provisions that would impact the Maine Department of Health and Human Services, one of the largest departments in Maine government. Some of the changes include:

- Eliminating TANF, SSI, SNAP benefits for non-citizens
- Modifying the formula that determines the allocation of General Assistance
- Reducing the income limit in the elderly low-cost drug program to the federal minimum
- Establishing a liquid asset test in order to be accepted to the elderly low-cost drug program
- Directing DHHS to submit a Medicaid state plan amendment to reduce Medicaid income limits to the federal minimum
- Creating the Bridging Rental Assistance Program which is designed to assist persons with mental illness until they are awarded housing placement
- Increasing funding for nursing homes
- Reducing reimbursements for home care in sections 65 and 28
- Transferring $10 million per year from the Fund for a Healthy Maine to other programs with DHHS
- Eliminating separate facility fees ensuring all doctors are reimbursed at the same rate regardless of location
- Providing funding to ensure a 100% reimbursement rate for primary care providers
- Increasing funding for Medicaid recipients who are waitlisted for housing or housing vouchers
- Reducing the reimbursement rate for non-emergency visits to hospitals
- Decreasing the income level in the Medicare Savings Program to the federal minimum

Levels of Spending

In the last four decades, only one budget, the 2010-2011 biennial budget, has spent less money than the budget that preceded it.

That instance, which was Governor John Baldacci's final budget, was less a demonstration of restraint and reform in government, and more an emergency, last ditch response to a dramatic reduction in revenues collected in the wake of the national recession.

In fact, despite spending less, the 2010-2011 budget sought to make indiscriminate cuts while leaving in place much of the misaligned spending priorities – such as unsustainable spending in the Medicaid program – that created the stress on the budget in the first place.

Governor LePage's first budget essentially restored state expenditures to just shy of their 2008-2009 level, but in so doing began to pursue important spending reforms that Baldacci had refused to confront. The contentious 2014-2015 budget raised total spending by $231,512,138 over the previous biennium.

In this budget proposal, LePage raises spending by **$166,019,357**, or roughly **2.59%.**

The Department of Education, with student enrollment continuing to decline, will see a marginal decrease of nearly $15.9 million, while DHHS is getting an increase of roughly $41 million. The other departments, with one exception (the Maine Community College System) all see a marginal increase.

Figure 1. Total General Fund Appropriation

2016 – 2017	2014 – 2015	2012 – 2013	2010 – 2011	2008 – 2009
$6,573,618,441	$6,407,599,084	$6,176,086,946	$5,685,945,819	$6,191,235,819

Figure 2. General Fund Appropriations

DEPARTMENT / AGENCY	2016 – 2017	2014 – 2015	2012 – 2013	2010 – 2011	2008 – 2009
Department of Education	**$2,317,174,043**	$2,333,069,073	$2,218,759,197	$2,304,571,347	$2,424,653,353
Department of Health And Human Services	**$2,287,023,179**	$2,246,018,081	$2,162,608,558	$1,611,080,806	$10,990,899,731
Board of Trustees of the University of Maine System	**$404,814,984**	$390,579,446	$387,428,026	$382,140,711	$391,863,489
Department of Corrections	**$331,914,396**	$302,540,696	$286,741,039	$294,196,702	$174,957,007
Department of Administrative and Financial Services	**$258,820,128**	$248,819,423	$242,367,007	$227,424,272	$243,036,652
(Office of) Treasurer of State	**$169,861,801**	$160,226,608	$198,142,941	$182,871,512	$174,957,007
Judicial Department	**$140,577,050**	$126,211,987	$112,069,615	$122,615,208	$125,414,157
Maine Community College System	**$110,917,072**	$111,417,072	$108,249,913	$106,133,575	$102,949,774
Department of Public Safety	**$88,430,218**	$77,742,055	$62,920,819	$58,512,988	$49,484,354
Department of Inland Fisheries and Wildlife	**$51,692,571**	$47,320,053	$45,586,493	$46,729,549	$45,624,897
Legislature	**$50,849,961**	$49,969,744	$49,166,909	$51,250,366	$49,318,613
Department of the Attorney General	**$41,328,441**	$30,245,564	$27,798,829	$27,226,073	$29,871,374
Finance Authority of Maine	**$31,384,788**	$21,362,788	$21,724,657	$25,333,013	$24,835,669

DEPARTMENT / AGENCY	2016 – 2017	2014 – 2015	2012 – 2013	2010 – 2011	2008 – 2009
Maine Commission on Indigent Legal Services	**$29,425,060**	$27,976,399	$21,599,353	$9,984,223	N/A
Department of Economic and Community Development	**$24,688,595**	$22,268,571	$23,353,959	$23,210,377	$25,665,942
Department of Labor	**$22,878,257**	$18,831,376	$19,926,799	$20,917,677	$24,287,993
Department of Marine Resources	**$20,485,942**	$18,542,616	$17,874,541	$18,752,283	$20,030,246
Department of Environmental Protection	**$15,315,454**	$13,401,741	$13,401,750	$11,677,377	$12,824,966

In addition to the General Fund Appropriations, the budget also proposes spending $630,234,934 from the highway fund, a 0.49% decrease from the previous biennium.

Figure 3. Total Highway Fund Appropriation

2016 – 2017	2014 – 2015	2012 – 2013	2010 – 2011	2008 – 2009
$630,234,934	$633,315,094	$637,574,338	$621,771,350	$675,948,145

Figure 4. Highway Fund Appropriations

DEPARTMENT / AGENCY	2016 – 2017	2014 – 2015	2012 – 2013	2010 – 2011	2008 – 2009
Department of Administrative and Financial Services	**$2,686,043**	$5,477,226	$6,477,961	$7,175,931	$7,829,646
Department of Environmental Protection	**$66,108**	$66,108	$66,108	$66,108	$73,476
Legislature	**$21,125**	$21,125	$0	$0	$13,750
Department of Public Safety	**$56,631,240**	$51,728,342	$61,619,500	$65,936,945	$74,288,218
Department of the Secretary of State	**$72,835,684**	$67,106,717	$64,888,266	$65,936,945	$69,426,600
Department of Transportation	**$497,994,734**	$508,915,576	$504,522,503	$487,125,052	$524,316,455

Additionally, the Governor's proposal would lower the limits on appropriations made by the state.

Currently, spending is limited by a complex formula that takes into account population growth, the rank of Maine's tax burden, and inflation. The results are spending caps that far exceed the revenues collected by Maine taxes. The LePage proposal would greatly simplify the formula so that it is based solely on personal income growth, and results in lower spending caps.

This change would also funnel more excess revenue into the state's stabilization fund. Currently, just 40% of excess revenue is allocated to stabilization fund, but LePage's plan would increase that rate to 80%, unless the fund is at its maximum size, in which case those funds would be sent to the taxpayer relief fund.

Spending Highlights

While it would be impossible to fully account for all the changes being made in this proposed biennium budget in a single budget review, there are a number of important spending changes, initiatives, and modifications worth highlighting, including:

- Creating a $1 million per year legal defense fund for when the Attorney General declines to represent the state
- Eliminating the provision that $4,000,000 in revenues must be allocated to provide start-up funds for approved public preschool programs for children 4 years of age
- Reducing the target for the state share of education spending for FY 2015-2016 from 55% to 48.86%
- Providing $5 million per year for grants towards efficient delivery of local and regional services that help reduce the demand for property taxes.
- Allocating over $16 million per year to the harness racing commission, which oversees and controls harness racing in Maine
- Allocating $5.1 million more to account for increases in retired teachers' health insurance costs
- Authorizing the Maine Governmental Facilities Authority to borrow $112 million for capital repairs and improvements to state facilities
- Increasing the annual salary of forest fire wardens from $100 to $400
- Eliminating $1,537,761 in appropriations that will likely not be needed by the Maine Technology Institute
- Providing $5 million in additional funding per year to the Maine State Grant Program
- Allocating $70,000 per year to host the Maine International Conference on the Arts
- Allowing the Department of Education to enter into a maximum of $95 million in financing agreements in order to purchase portable laptop computers for students and teachers
- Eliminating the Madawaska District Court
- Raising the daily compensation for active retired judges from $300 per day to $500 per day
- Increasing the mileage reimbursement rate from 15¢ to 44¢ per mile for jurors, and raising the daily compensation for jurors from $10 to $15
- Providing funding for new electronic medical records systems at the Riverview Psychiatric Center and the Dorothea Dix Psychiatric Center
- Providing funding for a new online Liquor Excise Tax System
- Allocating $300,000 per year to process crime scenes involving the seizure of methamphetamine labs
- Providing $145,000 more per year in order to increase legal services for victims of domestic violence, veterans and low-income children
- Eliminating nearly 200 state government positions, many of which are already vacant or unfilled
- Establishing four District Court Judge Positions to decide drug-related criminal cases, and four Assistant Attorney General positions to prosecute drug-related offenses
- Allowing the Department of Conservation to purchase and possess firearms, ammunition, and bullet-proof vests

Taxes

One of the primary goals of the Governor's budget proposal is to significantly reform the Maine tax structure, and reduce the tax burden over time. The budget seeks to accomplish this through several tax changes, including a major reduction in the personal income tax and corporate income tax, as well as a full elimination of the estate tax.

To make up for the reduction in corporate and individual income tax rates, LePage proposes to raise and broaden the sales and use tax.

The underlying philosophy behind this shift is to respond to the long changing economic base in Maine, which for decades has been moving from industrial production to a service-centric economy. With less industry to tax, and more services that have not historically been subject to taxation, the state has responded with incrementally higher taxes to obtain more from less. By transitioning away from taxing income – both personal and corporate – and toward services, LePage believes Maine will have a more stable, predictable, and lighter base

The administration estimates, based on its own projections, that the LePage plan would save Maine taxpayers $267 million a year by FY 2019, which would translate to an $86 million per year reduction in state revenue, and a $100 million per year reduction in municipal revenue.

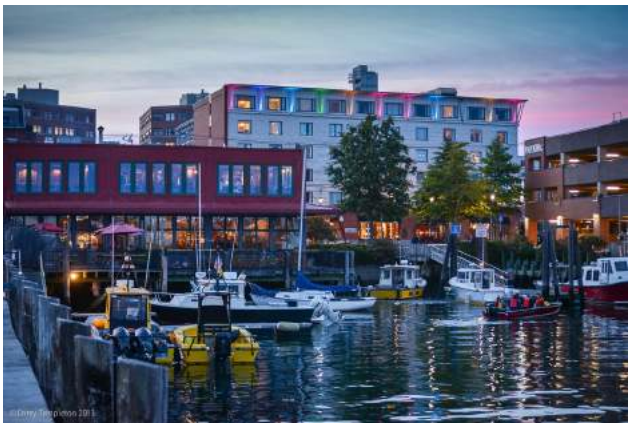
The tax changes proposed by LePage fall into four primary areas; corporate income taxes, individual income taxes, property taxes, and sales and use taxes, all of which we will discuss in some detail.

Municipal Funding

In a move closely linked with the proposal to allow municipalities to impose property taxes on certain non-profit corporations, the Governor also requests to eliminate entirely the state's revenue sharing program with municipalities.

Currently, the state of Maine is required to share a percentage of its monthly revenue from corporate, income, and sales taxes with municipalities.

The LePage Administration correctly asserts that although this funding was originally intended to provide relief for property taxpayers, municipalities are instead building it in to municipal budgets, and spending those dollars, rather than commit to taxpayer relief.



It is his belief that Maine taxpayers are seeing no benefit from revenue sharing, and the only consequences are inflated budgets and increased municipal spending. Instead, the administration seeks to send tax relief directly to individuals, which in every municipality

represents a much larger amount of money than is represented by revenue sharing.

He thus proposes to eliminate this practice, and keep the funds at the state level. Municipalities would also have the option of imposing property taxes on high value non-profits. While the non-profit portion of his proposal has no impact on state revenues, it may help offset, in some towns, the loss of revenue sharing funds.

This move would save the state $164 million per year by the FY 2018-2019 biennium.

As previously highlighted, the plan also calls for significant changes to the formula that determines how much General Assistance funding Maine provides to municipalities. General Assistance serves as a back-up assistance program which provides temporary help to needy individuals and families who don't qualify for federal programs.

Currently, the state reimburses a municipality 50% of their General Assistance costs, provided that their total General Assistance expenses are in excess of .0003 of that municipality's most recent state valuation. The reimbursement rate also increases up to 90% if the total General Assistance expenses rise above $750,000.

LePage correctly asserts this formula only encourages municipalities to race and spend General Assistance funds, so that they will meet the threshold and then have the state reimburse at a higher rate. This allows them to dramatically expand spending, while forcing the state to shoulder a majority of the burden.

Therefore, he proposes to alter the formula so the state would pay 90% of municipalities' costs initially, but when then reimburse at 10% when municipalities spend 40% of their previous six-year average. This formula change is expected to save Maine $5.4 million per year over the 2016-2017 biennium.

PERSONAL INCOME TAX

The centerpiece of the budget plan is an initial push to move the state toward eliminating the personal income tax, which would require additional future budgets and structural reforms not contained in this specific proposal.

Governor LePage believes that this is a necessary move to make the state more nationally competitive for labor. Maine currently has the 9th highest top marginal tax rate at 7.95%, putting workers and potential workers in the state at a disadvantage, causing lower take home pay when compared to most other states. Maine's complete individual income tax structure is below in Figure 5.

Figure 5. Current Individual Income Tax Rates

INCOME	GROSS TAX
$0 - $5,200	$0
$5,201 - $20,900	6.5% of Income over $5,200
$20,900 or more	$1,021 + 7.95% of Income over $20,900

With this plan, the individual income tax rates would be reduced, and the amount of income exempt from taxation would be nearly doubled. However, the number of brackets would be increased, and a so-called "bubble bracket" would also be created.

This bubble in taxation rates is intended to recoup the revenue lost due to the zero bracket, and would represent the first time a state has used this feature with the rates themselves.

Figure 6. Proposed Individual Income Tax Rates

2016		2017		2018		2019	
Income	Gross Tax	Income	Gross Tax	Income	Gross Tax	Income	Gross Tax
$0 - $9,700	$0	$0 - $9,700	$0	$0 - $9,700	$0	$0 - $9,700	$0
$9,701 - $50,000	5.75% of Income Over $9,700	$9,701 - $50,000	5.75% of Income Over $9,700	$9,701 - $50,000	5.75% of Income Over $9,700	$9,701 - $50,000	5.75% of Income Over $9,700
$50,001 or more	$2,317 + 6.95% of Income Over $55,000	$50,001 – $128,100	$2,317 + 6.95% of Income Over $55,000	$50,001 - 143,725	$2,317 + 6.75% of Income Over $55,000	$50,001 - $175,000	$2,317 + 6.5% of Income Over $55,000
		$128,101 or more	$7,745 plus 6.5% Of Income Over $128,100	$143,726 or More	$8,643 + 6.0% of Income Over $143,725	$175,001 or more	$10,442 + 5.75% of Income Over $175,000

The proposed biennial budget would expand access to income tax modifications by:

- Exempting employees from paying income taxes on payments made by their employers to the Maine Public Employees Retirement System.
- Exempting 100% of military retirement plan benefits.
- Increasing the pension deduction from $10,000 to $35,000 over the course of a five-year period.

- Increasing the income tax credit for childcare expenses to 50% of the federal child care credit.
- Creating a medical expense tax credit that is equal to 5% of federal medical expense deduction.

However, the plan would also eliminate several income tax modifications such as:

- All itemized deductions including the charitable contribution deduction and mortgage interest deduction.
- The income subtraction modification for long-term care premiums.
- Income subtractions for contributions of up to $250 per beneficiary to 529 college savings plans.
- The credit for contributions to family development account reserves.
- The retirement and disability credit.
- The forest management planning income tax credit.

Additionally, the LePage budget repeals the law requiring the Maine Revenue Service to assign income tax refunds to NextGen college tuition accounts if prompted, as this option was seldom used and was an administrative burden. The proposal also removes charitable checkoffs from Maine individual income tax forms, in an attempt to simplify and slim down the tax code.

According to LePage Administration officials, in 2016, Maine taxpayers could expect to save at least $238 million as a result of the proposed changes, and in the 2018-2019 biennium, the savings would increase to over $600 million per year.

Altogether, these reforms would significantly improve Maine's individual income tax rating to 20th on the Tax Foundation's *State Business Climate Inde*x and move its top tax rate down to the 15th lowest in the United States.

CORPORATE INCOME TAX

With a stated goal of facilitating economic growth and attracting new businesses to the state, Governor LePage's budget attempts to significantly reduce and flatten the corporate income tax rate. Currently, Maine has one of the most hostile corporate income tax systems in the country, ranked 45th in the Tax Foundation's *State Business Climate Index*, and has the 10th highest top tax rate at 8.93%. Maine's full corporate income tax structure can be found below in Figure 7.

Figure 7. Current Corporate Income Tax Rates

INCOME	GROSS TAX
$0 - $25,000	3.5% of Income
$25,001 - $75,000	$875 + 7.93% of Income Over $25,000
$75,001- $250,000	$4,840 + 8.33% of Income Over $75,000
$250,001 or more	$19,418 + 8.93% of Income Over $250,000

The governor asserts that these changes will not only encourage businesses, workers, and families to relocate to Maine, but will also allow Maine to again be competitive with the rest of the nation.

The lower, simpler rates will, he hopes, lower the cost of doing business in Maine, which would hopefully facilitate growth.

Under the LePage proposal, the rates and brackets would begin reducing and consolidating in tax year 2017.

The changes would be fully phased in by 2021, with the top rate being decreased to 6.75% and the three brackets reduced to two. The complete changes are on the next page in Figure 8.

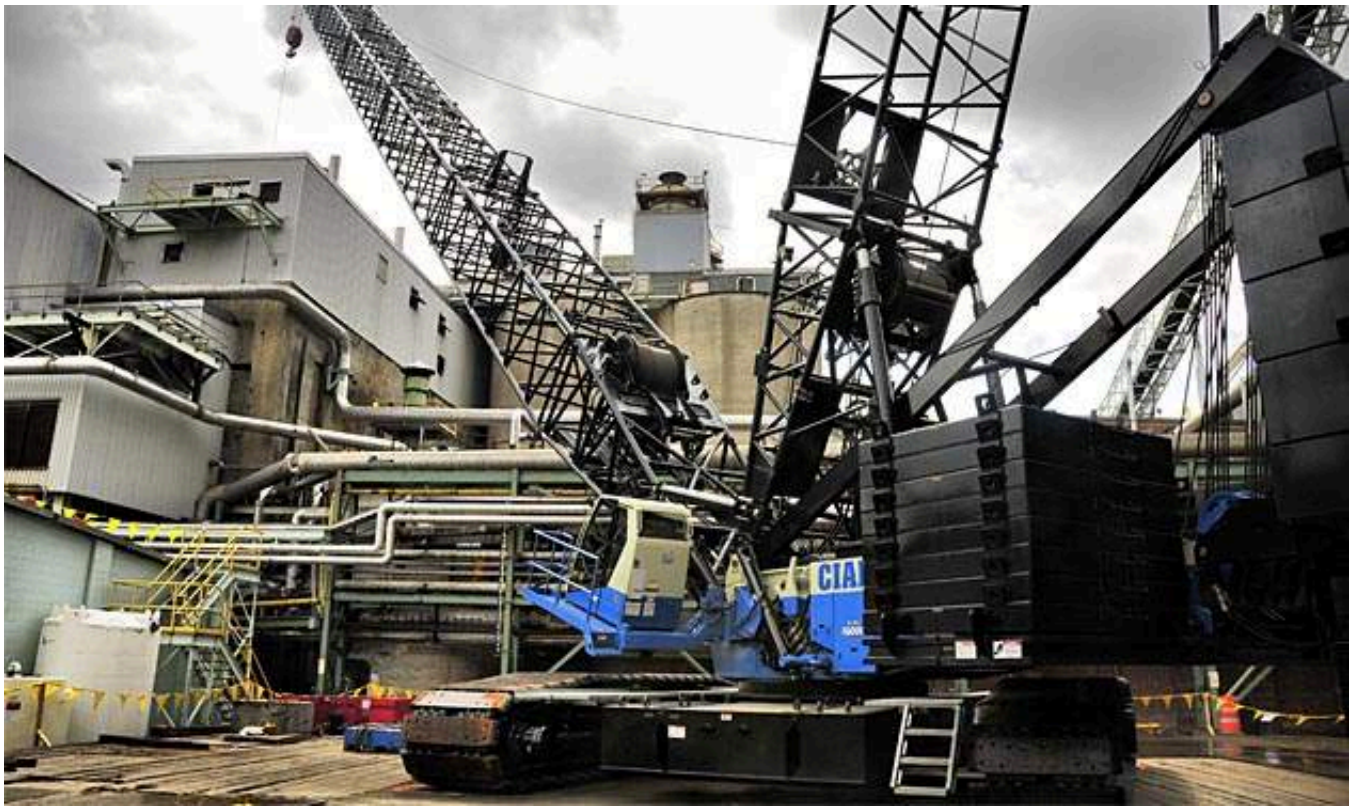


Figure 8. Proposed Corporate Income Tax Rates

2017		2018		2019		2020		2021	
Income	**Gross Tax**	**Income**	**Gross Tax**	**Income**	**Gross Tax**	**Income**	**Gross Tax**	**Income**	**Gross Tax**
$0 - $25,000	3.5% of Income	$0 - $25,000	3.5% of Income	$0 - $25,000	3.5% of Income	$0 - $25,000	3.5% of Income	$0 - $25,000	3.5% of Income
$25,001- $75,000	$875 + 7.93% of Income Over $25,000	$25,001 or more	$875 + 7.93% of Income Over $25,000	$25,001 or more	$875 + 7.5% of Income Over $25,000	$25,001or more	$875 + 7% of Income Over $25,000	$25,001 or more	$875 + 6.75% of Income Over $25,000
$75,001 or more	$4,840 + 8.33% of income over $75,000								

The plan would also eliminate the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2015.

Maine is currently one of just eight states that impose an AMT on corporations, and it has set its AMT at 5.4% of the federal alternative minimum taxable income.

Additionally, LePage's proposal seeks to broaden the corporate income tax by eliminating several tax exemptions including:

- The jobs and investment tax credit
- Employer-assisted day care credit
- Employer-provided long-term care benefits credit
- High-technology investment tax credit
- Quality child care investment credit
- Biofuel production credit

In total, LePage calculates these changes would lower the corporate tax burden by $50 million over the FY 2018-2019 biennium.

SALES TAX

Lastly, the LePage budget moves further towards its goal of a more "modern" tax structure that is based on consumption rather than earned income. The rationalization for this type of a system is twofold. It not only takes advantage of Maine's position as a service economy and travel destination, but also gives taxpayers and Maine residents more freedom and choice in their taxation level.

In addition, moving toward a consumption based tax system also offloads tax burden to non-residents who visit Maine. Personal income tax can only obtain receipts from people who live and work in Maine.

Currently, Maine has a generally competitive sales and use tax, currently ranked 9th by the Tax Foundation's *State Business Tax Climate Index*. Maine also has the 20th lowest sales tax rate, but unfortunately often loses economic activity to neighboring New Hampshire, which does not impose a sales tax.

Figure 9. Current Sales and Use Tax Rates

TYPE	CURRENT RATE
General Sales and Use Tax	5.50%
Service Provider Tax	5%
Lodging Tax	8.00%
Prepared Food Tax	8.00%
Liquor Tax	8.00%
Short-Term Auto Rentals Tax	10%

The LePage proposal would increase certain sales tax rates, and also stop the rates from reverting to their previous rates, which was the intention of the legislature when it passed a "temporary" sales tax increase. It also would lower the liquor, prepared foods and short-term auto tax rates, reasoning that these taxes primarily burden Maine citizens rather than nonresidents.

Figure 10. Current Sales and Use Tax Rates

TYPE	SCHEDULED	PROPOSED
General Sales and Use Tax	5.00%	6.50%
Service Provider Tax	5.00%	6.00%
Lodging Tax	7.00%	8.00%
Prepared Food Tax	7.00%	6.50%
Liquor Tax	7.00%	6.50%
Short-Term Auto Rentals Tax	10.00%	8.00%

The plan also seeks to broaden the sales tax base, as Maine has just 11th narrowest sales tax base in terms of taxing services. Broadening the base will reportedly spread more of the sales tax burden to non-residents and visitors to Maine, and will also provide for increased year-to-year stability and consistency.

This broadening is accomplished by eliminating several exemptions to the sales and use tax, and allowing many services to now be taxed. The full list of newly eliminated sales exemptions and now-taxable services is shown below in Figure 11.

Figure 11. Additions to the Sales and Use Tax

Rental of living quarters in a hotel, tourist or trailer camp, or rooming house	Soft drinks
Candy	Sandwiches and salads
Interior home decorating, design, cleaning, and organizing services	Corn chips, potato chips, crisped vegetable or fruit chips, potato sticks, pork rinds, pretzels, popped corn, and cheese puffs
Exterior home cleaning and maintenance such as power washing and pool cleaning	Fruit bars, granola bars, trail mix, rice cakes, popcorn cakes, bread sticks, and dried sugared fruit
Landscaping and horticulture services	Nuts and seeds that have been processed
Property maintenance such as lawn care, snow removal, and monitoring services	Deserts and bakery items such as doughnuts, cookies, muffins, dessert breads, pastries, cakes, pies and ice cream
Insect and pest control services	Meat sticks and meat jerky
Home automation services such as home electronics and auto-visual design installation	Legal services
Locksmithing and home security system design, installation, servicing and repair	Accounting, tax preparation and book keeping services
Private waste management and remediation services	Advertising, public relations and related services
Domestic staffing service such as cooks, maids, butlers, nannies gardeners and caretakers except in-home and community support services	Architectural, engineering and related services
Installation, repair, and maintenance services except for services involved with motor vehicles and aircraft	Graphic design services
Hair, nail, and skin services such as hair, nail, and tanning salons, massage parlors, spas, and tattoo parlors	Photographic services
Elective cosmetic medical procedures and electrolysis	Financial planning services
Event planning services such as wedding and commitment planning	Amusement, attraction and entertainment services such as movie theaters, lectures, concerts, amusement parks, water parks, zoos, race tracks, museums and historical sites
Dating, escort, and social introduction services	Private investigation services
Diet and nonmedical weigh-reduction services	Talent agency, artist agency and modeling agency services
Flower, balloon and other delivery services	Surveying and mapping services
Travel arrangement services	Exhibition shows such as auto, boat, camping, home, trade and animal shows
Psychic reading, tarot card reading, palm reading, and astrology services	Scenic and sight-seeing excursions such as aircraft, watercraft, bus, and wagon rides, whitewater rafting and guided recreation
Dry cleaning, laundry and diaper services (excluding self-service laundry)	Lessons in dance, music, theater, arts and gymnastics
Embroidery, monogramming, silk screening and other clothing alterations	The lease or rental of tangible property
Vehicle cleaning and detailing services	Prepaid calling service
Pressure cleaning and washing	The transmission and distribution of electricity
Pet services such as exercising, sitting, training, grooming and boarding	Sales through vending machines
Mounting and framing services	Butchering
Furniture and rug cleaning	Restoration services such as art and photographic restoration
Meal and drink preparation	Warehousing and storage
Vehicle towing	Moving services

However, the sales and use tax would not be broadened to include many services and sales including

- Repairs on telecommunication equipment.
- Many business-to-business transactions.
- Sales to certain organizations dedicated to serving and helping Maine veterans.

Additionally, the LePage proposal would alter the way the sales tax is computed. Currently, when the sale price contains a fraction of a dollar, the amount of tax is determined by tax rate schedules. LePage would eliminate the tax rate schedules, and instead simply have the tax computation rounded to the nearest whole cent.

To provide some relief to low-income taxpayers for these changes, Governor LePage also proposes to create a refundable individual income tax sales tax fairness credit. This credit would have a base that is determined by the number of tax exemptions claimed, and then phased out over certain income levels.

Figure 12. Proposed Income Tax Sales Tax Fairness Credit Base

EXEMPTIONS	INITIAL CREDIT
1	$250
2	$350
3	$400
4	$450
5	$475
6	$500

After a certain income level, the credit is decreased by a specified amount for each additional unit, as shown below:

Figure 13. Income Tax Sales Tax Fairness Credit Reduction

FILING STATUS	AFTER	CREDIT DECREASED BY	PER
Single	$15,000	$10	$500
Head of Household	$22,500	$15	$750
Joint Filers	$30,000	$20	$1,000

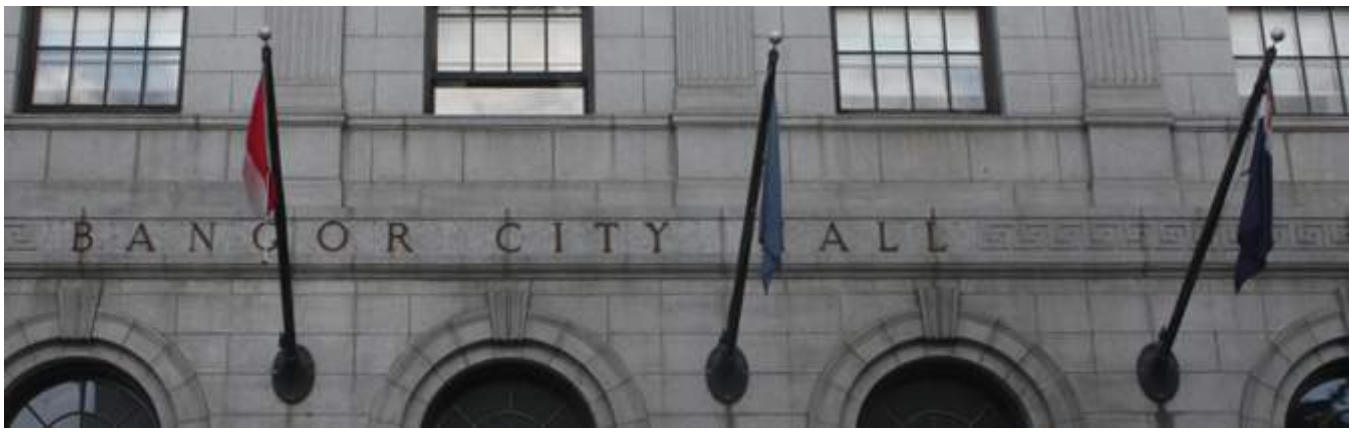
In aggregate, the sales and use tax changes proposed by LePage would raise Maine an additional $831 million per year, and would make the sales and use tax the largest provider of state revenue for the general fund. Approximately 41% of all general funds would come from the sales and use tax, and the tax would fall to being ranked 20th in the *State Business Climate Index*.

PROPERTY TAX

A central goal of the administration is to attempt to provide *direct* economic relief for municipalities and certain taxpayers, rather than *abstract* relief, through changes to the property tax structure. LePage asserts that although it is important to rely on the property tax system, as Maine has the highest percentage of second homes in America, this form of taxation unfairly burdens certain populations such as the elderly.

With Maine collecting the 6th most property taxes per capita ($1,808) and ranked 40th in the nation in terms of property taxes by the Tax Foundation, there is clearly room for improvement and tax relief.

The administration first attempts to improve the system by raising the estate tax exclusion to $5.5 million in 2016, and then completely repealing the tax for deaths after December 31, 2016. The Maine Revenue Service (MRS) calculates that eliminating the estate tax would save Maine taxpayers $28.8 million by FY 2018.



The plan would also double the homestead exemption to $20,000 for seniors, but would eliminate the exemption for all property taxpayers under 65. MRS asserts that this move would result in nearly $24 million in *direct* savings per year for the elderly population in Maine.

The budget would also provide relief to property taxpayers by increasing access to the Property Tax Fairness Credit, and increasing the size of the credit. The maximum income for the credit would be increased to $50,000, and the cap on the amount of property tax that can be claim towards the credit would be would be increased to $3,000. The maximum credit would also be increased to $1,500 for individuals over 65 and $1,000 for those under 65, or 100% of the benefit base that exceeds 6% of earned income.

These changes would increase the cost of the program from $30 million to $90 million, meaning Maine property taxpayers would save an additional $60 million per year.

Figure 14. Property Tax Fairness Credit

	CURRENT		PROPOSED	
	Maximum Income	Benefit Base	Maximum Income	Benefit Base
Single Filers	$33,300	$2,000	$50,000	$3,000
Joint Filers/Head of Household 0-2 Exemptions	$43,000	$2,600	$66,666	$4,000
Joint Filers/Head of Household 3+ Exemptions	$53,300	$3,200	$83,333	$5,000

To allow municipalities to raise additional revenue, the plan also halves the current 100% property tax exemption for top-tier nonprofits. This exemption reduction is limited to nonprofit property that is valued at $500,000 or more, and excludes houses of worship, which would remain at 100% exempt. This provision is predicted to generate at least $60 million in yearly revenue for municipalities.

The excise tax on telecommunications equipment would also be shifted from the state level to the local level, resulting in another $9 million per year in additional revenue for municipalities.

Finally, the proposal would phase the Businesses Tax Reimbursement (BETR) program into the Business Equipment Tax Exemption (BETE) program over a four-year period. All non-retail business property that is currently in the BETR program would be eligible for a 25% BETE exemption in 2016, a 50% exemption in 2017, a 75% exemption in 2018, and a full exemption in 2019.

All retail property currently in the BETR program would be eligible for ten years of exemption in the BETE program, while new retail property would not be eligible for any exemption. The BETR program was forecasted to cost the state over $38 million in FY 2014, however, it is unclear how much of that was dedicated to retail property. But a 2013 proposal to exclude retail from property tax exemptions was predicted by LePage Administration to cost the retail industry $2 million per year.

MUNICIPAL REVENUE SHARING

Municipal budgets have, since 1972, been supplemented by a program known as revenue sharing, which seeks to ease local costs by supplying financial assistance to cities and towns. This revenue stream has become part of the planned income, and is built into spending plans.

Originally proposed as a mechanism to help towns lower property taxes, critics (including **The Maine Heritage Policy Center**) contend that the program incentivizes towns to spend the money, rather than directing it to tax relief, thereby failing in its mission. Additionally, it helps perpetuate hyper-local, duplicative governance, and dissuades towns from engaging in much needed resource sharing and consolidation of services.

This budget eliminates revenue sharing entirely. The impact that elimination will have remains unclear, as localities will undoubtedly react to the loss of income in different ways. Already, a number of communities in Oxford County are planning to consolidate services to make up the difference, while there will unquestionably be towns who simply raise their property taxes to keep their budget expenditures growing.

That unpredictability makes it impossible to predict what impact the loss of revenue sharing will have on property taxes. However, consistent with the governor's goal to provide tax relief directly to citizens, it should be noted that income tax savings provided to the citizens of each town greatly outweigh the revenue sharing dollars spent on that town.

Programs to lower property taxes should benefit homeowners—not government offices.

~Governor Paul LePage
2015 State of the State Address

The question central to the evaluation of this plan, however, is *what does that mean for the individual taxpayer*? If, for instance, a middle-class resident of a town saves a small amount of money on income tax, but pays a great deal more because of a hike in the property tax, that would result in a net tax increase.

There can be no definitive answer to that question, but we can examine some hypothetical examples, which we seek to do later in this report. For comparison's sake, the town-by-town property tax rate, percent of home valuation, revenue sharing dollars, and income tax cut is provided below in figure 15.

Figure 15. Town by town revenue sharing analysis

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
ABBOT	$12.90	100.00%	**$22,814**	$110,689
ACTON	$11.10	110.00%	**$78,200**	$579,029
ADDISON	$13.40	100.00%	**$42,126**	$208,454
ALBION	$15.00	100.00%	**$76,050**	$451,907
ALEXANDER	$15.40	110.00%	**$21,761**	$98,263
ALFRED	$14.25	100.00%	**$119,351**	$824,949

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
ALLAGASH	$12.60	103.00%	**$7,636**	$20,959
ALNA	$22.80	90.00%	**$38,465**	$208,992
ALTON	$9.75	100.00%	**$24,183**	$166,764
AMHERST	$12.80	100.00%	**$8,923**	$50,106
AMITY	$17.20	100.00%	**$10,568**	$28,154
ANDOVER	$15.60	85.00%	**$26,304**	$126,308
ANSON	$20.00	100.00%	**$167,926**	$382,538
APPLETON	$17.00	100.00%	**$65,353**	$296,192
ARROWSIC	$12.80	76.00%	**$10,434**	$162,113
ARUNDEL	$14.50	100.00%	**$158,162**	$1,179,507
ASHLAND	$26.15	94.00%	**$127,695**	$235,610
ATHENS	$18.99	100.00%	**$43,561**	$112,131
ATKINSON	$19.00	100.00%	**$18,128**	$53,502
AUBURN	$20.95	100.00%	**$1,646,561**	$6,129,248
AUGUSTA	$18.67	100.00%	**$1,157,269**	$4,007,520
AURORA	$19.00	80.00%	**$3,504**	$38,095
AVON	$15.10	100.00%	**$15,358**	$51,667
BAILEYVILLE	$20.50	100.00%	**$99,986**	$298,451
BALDWIN	$11.95	105.00%	**$56,914**	$307,214
BANGOR	$21.80	100.00%	**$2,250,789**	$8,423,178
BAR HARBOR	$10.22	100.00%	**$130,502**	$1,851,841
BARING PLT	$17.50	100.00%	**$14,279**	$45,314
BATH	$20.20	100.00%	**$554,101**	$2,197,863
BEALS	$16.70	95.00%	**$25,106**	$90,705
BELFAST	$21.65	90.00%	**$330,194**	$1,604,487
BELGRADE	$13.35	100.00%	**$91,404**	$1,426,763
BELMONT	N/A	N/A	**$22,824**	$166,679
BENTON	$13.60	100.00%	**$67,536**	$521,435
BERWICK	$15.90	108.00%	**$373,356**	$1,870,606
BETHEL	$12.50	100.00%	**$84,553**	$668,503
BIDDEFORD	$18.99	100.00%	**$1,190,274**	$4,545,141
BINGHAM	$21.00	100.00%	**$63,432**	$134,846
BLAINE	$26.50	83.00%	**$43,197**	$112,060
BLUE HILL	$8.80	100.00%	**$48,805**	$936,752
BOOTHBAY	$8.50	100.00%	**$61,811**	$964,644
BOOTHBAY HARBOR	$10.90	84.00%	**$45,267**	$605,946
BOWDOIN	$13.90	100.00%	**$101,515**	$770,935
BOWDOINHAM	$16.25	100.00%	**$132,501**	$979,589
BRADFORD	$19.00	100.00%	**$56,271**	$182,070

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
BRADLEY	$13.80	100.00%	**$63,918**	$344,299
BREMEN	$10.60	90.00%	**$19,339**	$230,162
BREWER	$20.92	100.00%	**$601,615**	$3,112,805
BRIDGEWATER	$15.50	100.00%	**$28,068**	$70,490
BRIDGTON	$14.06	110.00%	**$203,955**	$988,946
BRISTOL	$7.90	92.00%	**$40,652**	$1,039,297
BROOKLIN	$7.20	100.00%	**$12,759**	$246,031
BROOKS	$16.50	100.00%	**$42,089**	$161,624
BROOKSVILLE	$5.48	100.00%	**$12,790**	$275,295
BROWNFIELD	$14.00	100.00%	**$61,764**	$251,627
BROWNVILLE	$18.90	100.00%	**$79,562**	$227,528
BRUNSWICK	$27.40	70.00%	**$1,059,143**	$6,885,031
BUCKFIELD	$20.55	100.00%	**$112,655**	$376,430
BUCKSPORT	$14.11	100.00%	**$168,537**	$1,008,125
BURLINGTON	$17.40	100.00%	**$19,800**	$49,804
BURNHAM	$17.69	100.00%	**$49,810**	$158,326
BUXTON	$12.70	100.00%	**$262,252**	$2,471,359
CALAIS	$25.30	96.00%	**$230,993**	$617,385
CAMBRIDGE	$19.60	100.00%	**$19,330**	$66,534
CAMDEN	$14.43	100.00%	**$183,331**	$2,249,374
CANAAN	$16.00	100.00%	**$104,231**	$354,310
CANTON	$22.75	100.00%	**$57,185**	$134,636
CAPE ELIZABETH	$16.80	100.00%	**$451,764**	$8,294,367
CARIBOU	$22.30	100.00%	**$587,371**	$1,726,853
CARMEL	$13.65	100.00%	**$116,042**	$651,765
CARRABASSETT VALLEY	$6.50	100.00%	**$11,487**	$215,733
CARROLL PLT	N/A	N/A	**$3,579**	$13,369
CARTHAGE	N/A	N/A	**$25,292**	$78,290
CARY PLT	$23.40	100.00%	**$12,913**	$28,267
CASCO	$14.55	100.00%	**$146,944**	$1,024,199
CASTINE	$9.55	100.00%	**$32,194**	$293,877
CASTLE HILL	$14.60	100.00%	**$16,186**	$45,152
CASWELL	$25.50	84.00%	**$13,556**	$36,899
CHAPMAN	$14.00	100.00%	**$17,827**	$99,302
CHARLESTON	$14.10	100.00%	**$53,968**	$188,659
CHARLOTTE	$24.00	100.00%	**$24,195**	$60,853
CHEBEAGUE ISLAND	$20.90	63.00%	**$12,009**	$110,868
CHELSEA	$17.20	100.00%	**$130,741**	$555,335
CHERRYFIELD	$19.50	100.00%	**$50,758**	$165,787

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
CHESTER	$11.60	100.00%	**$13,548**	$113,438
CHESTERVILLE	$14.50	100.00%	**$47,056**	$203,358
CHINA/CHINA VILLAGE	$15.10	100.00%	**$152,832**	$1,197,953
CLIFTON	$12.60	100.00%	**$33,002**	$186,891
CLINTON	$17.70	100.00%	**$145,681**	$664,636
COLUMBIA	$13.20	100.00%	**$24,939**	$51,020
COLUMBIA FALLS	$17.40	94.00%	**$17,996**	$96,614
COOPER	$18.90	100.00%	**$6,909**	$32,924
CORINNA	$17.10	96.00%	**$111,359**	$466,670
CORINTH	$14.60	98.00%	**$88,393**	$561,400
CORNISH	$12.90	100.00%	**$57,684**	$318,960
CORNVILLE	$17.00	90.00%	**$51,707**	$269,102
CRANBERRY ISLE	$10.10	91.00%	**$2,367**	$37,449
CRYSTAL	$18.25	100.00%	**$14,565**	$16,982
CUMBERLAND	$17.40	100.00%	**$417,852**	$4,203,676
CUSHING	$11.30	110.00%	**$54,101**	$350,995
CUTLER	N/A	N/A	**$17,396**	$91,538
DAMARISCOTTA	$15.80	100.00%	**$98,457**	$825,790
DANFORTH	$22.90	85.00%	**$25,743**	$64,208
DAYTON	$20.85	92.00%	**$96,653**	$596,499
DEDHAM	$15.96	100.00%	**$63,885**	$370,527
DEER ISLE	$22.82	44.00%	**$45,190**	$750,743
DENMARK	$8.98	100.00%	**$37,238**	$273,466
DENNYSVILLE	$13.44	100.00%	**$10,007**	$95,123
DETROIT	$14.35	100.00%	**$39,598**	$118,232
DEXTER	$17.70	100.00%	**$215,767**	$495,869
DIXFIELD	$20.80	110.00%	**$182,766**	$498,719
DIXMONT	$11.00	110.00%	**$33,407**	$284,389
DOVER FOXCROFT	$18.25	100.00%	**$232,379**	$871,454
DRESDEN	$17.00	100.00%	**$57,838**	$475,787
DURHAM	$16.65	100.00%	**$140,827**	$1,325,543
DYER BROOK	$13.50	100.00%	**$5,412**	$32,343
EAGLE LAKE	$15.45	110.00%	**$40,857**	$154,146
EAST MACHIAS	$17.25	100.00%	**$61,703**	$266,323
EAST MILLINOCKET	$28.54	100.00%	**$146,023**	$292,452
EASTBROOK	N/A	N/A	**$18,821**	$54,959
EASTON	$17.40	59.00%	**$34,374**	$248,173
EASTPORT	$23.00	100.00%	**$102,707**	$191,648
EDDINGTON	N/A	N/A	**$78,886**	$562,614

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
EDGECOMB	$14.90	100.00%	**$44,383**	$332,251
ELIOT	$13.80	100.00%	**$243,654**	$2,545,991
ELLSWORTH	$16.45	100.00%	**$364,689**	$2,231,925
EMBDEN	$12.46	100.00%	**$34,894**	$117,353
ENFIELD	$16.10	100.00%	**$85,230**	$297,625
ETNA	$15.30	100.00%	**$53,690**	$198,556
EUSTIS	$11.00	100.00%	**$15,279**	$198,694
EXETER	$14.50	100.00%	**$45,541**	$189,233
FAIRFIELD	$20.25	100.00%	**$459,304**	$1,409,010
FALMOUTH	$14.10	100.00%	**$457,149**	$10,927,465
FARMINGDALE	$14.00	100.00%	**$100,209**	$702,325
FARMINGTON	N/A	N/A	**$376,095**	$1,313,373
FAYETTE	$15.00	100.00%	**$45,752**	$395,228
FORT FAIRFIELD	$23.75	100.00%	**$244,304**	$574,782
FORT KENT	$18.00	100.00%	**$209,666**	$1,018,592
FRANKFORT	$13.75	100.00%	**$43,664**	$180,647
FRANKLIN	$9.50	103.00%	**$35,087**	$250,691
FREEDOM	$18.90	105.00%	**$34,477**	$117,794
FREEPORT	$15.55	100.00%	**$361,281**	$4,414,533
FRENCHVILLE	$22.50	97.00%	**$59,438**	$179,060
FRIENDSHIP	$9.80	100.00%	**$25,114**	$189,705
FRYEBURG	$16.10	100.00%	**$170,373**	$647,335
GARDINER	$20.60	100.00%	**$427,684**	$1,330,756
GARLAND	$18.40	100.00%	**$46,959**	$153,551
GEORGETOWN	$7.38	100.00%	**$19,758**	$373,446
GILEAD	$9.40	100.00%	**$9,756**	$22,668
GLENBURN	$18.60	100.00%	**$274,984**	$1,228,421
GORHAM	$17.40	90.00%	**$775,939**	$6,062,204
GOULDSBORO	$8.30	100.00%	**$36,200**	$304,862
GRAND ISLE	N/A	N/A	**$34,532**	$55,820
GRAND LAKE STREAM PLT	$8.40	100.00%	**$2,009**	$27,447
GRAY	$18.20	90.00%	**$304,598**	$2,540,988
GREENBUSH	$23.90	100.00%	**$105,912**	$279,219
GREENE	$13.52	100.00%	**$182,983**	$1,130,576
GREENVILLE	$14.70	100.00%	**$67,093**	$469,918
GREENWOOD	$12.50	100.00%	**$30,666**	$154,976
GUILFORD	$14.45	100.00%	**$63,830**	$281,935
HALLOWELL	$17.60	100.00%	**$118,260**	$819,716
HAMLIN	$6.50	100.00%	**$3,082**	$17,689

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
HAMPDEN	$17.50	100.00%	**$374,594**	$3,569,545
HANCOCK	$10.00	100.00%	**$60,147**	$464,217
HANOVER	$9.30	100.00%	**$4,937**	$64,145
HARMONY	$16.50	100.00%	**$32,589**	$106,370
HARPSWELL	$6.10	100.00%	**$68,870**	$2,144,094
HARRINGTON	$16.25	106.00%	**$45,632**	$127,492
HARRISON	$10.95	110.00%	**$80,693**	$503,344
HARTFORD	$19.25	100.00%	**$55,748**	$203,214
HARTLAND	$18.50	100.00%	**$120,135**	$292,176
HEBRON	$13.68	110.00%	**$59,473**	$304,770
HERMON	$12.00	100.00%	**$167,902**	$1,700,067
HIRAM	$14.45	100.00%	**$65,573**	$233,097
HODGDON	$20.10	81.00%	**$52,463**	$189,720
HOLDEN	$15.65	104.00%	**$134,839**	$1,520,425
HOLLIS	$11.50	100.00%	**$108,632**	$1,255,046
HOPE	$13.50	100.00%	**$60,495**	$437,776
HOULTON	$21.75	100.00%	**$383,420**	$1,217,149
HOWLAND	$18.50	110.00%	**$84,219**	$183,615
HUDSON	N/A	N/A	**$44,905**	$302,976
INDUSTRY	$12.30	100.00%	**$32,639**	$146,335
ISLAND FALLS	$21.35	100.00%	**$58,991**	$128,494
ISLEBORO	$12.13	85.00%	**$11,537**	$158,520
JACKMAN	$16.00	100.00%	**$38,868**	$364,309
JACKSON	$23.10	83.00%	**$30,715**	$74,513
JAY	$15.75	100.00%	**$183,010**	$924,810
JEFFERSON	$12.00	100.00%	**$86,468**	$592,404
JONESBORO	$15.10	105.00%	**$18,326**	$106,786
JONESPORT	$14.90	100.00%	**$48,750**	$174,096
KENDUSKEAG	$13.20	100.00%	**$41,653**	$265,799
KENNEBUNK	$14.90	95.00%	**$438,752**	$4,515,060
KENNEBUNKPORT	$7.63	100.00%	**$56,730**	$1,898,148
KINGFIELD	$17.50	100.00%	**$29,404**	$319,535
KITTERY	$15.52	100.00%	**$398,491**	$3,254,452
KNOX	$15.40	96.00%	**$30,794**	$116,394
LAGRANGE	$17.68	100.00%	**$24,686**	$87,707
LAMOINE	$10.30	100.00%	**$36,965**	$430,797
LEBANON	$14.90	100.00%	**$215,587**	$1,291,640
LEE	$19.75	96.00%	**$54,329**	$154,778
LEEDS	$15.80	100.00%	**$89,014**	$488,279

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
LEVANT	$12.50	100.00%	**$92,794**	$630,855
LEWISTON	$26.59	91.00%	**$2,863,347**	$6,385,512
LIBERTY	$15.90	100.00%	**$32,013**	$208,946
LIMERICK	$14.15	100.00%	**$108,939**	$618,030
LIMESTONE	$24.25	98.00%	**$165,906**	$238,713
LIMINGTON	$10.90	100.00%	**$97,798**	$802,929
LINCOLN	$22.40	100.00%	**$320,667**	$1,022,578
LINCOLNVILLE	$15.50	100.00%	**$91,972**	$599,055
LINNEUS	N/A	N/A	**$40,166**	$111,258
LISBON	$24.40	86.00%	**$573,049**	$1,888,449
LITCHFIELD	N/A	N/A	**$121,391**	$876,669
LITTLETON	$17.00	91.00%	**$35,665**	$111,655
LIVERMORE	$14.30	100.00%	**$87,308**	$471,932
LIVERMORE FALLS	$21.10	100.00%	**$234,053**	$372,104
LONG ISLAND	$7.16	100.00%	**$4,258**	$61,236
LOVELL	$9.45	83.00%	**$21,555**	$301,788
LOWELL	$15.96	100.00%	**$17,036**	$65,316
LUBEC	$20.76	89.00%	**$70,808**	$227,701
LUDLOW	$16.20	100.00%	**$20,293**	$63,447
LYMAN	$12.15	100.00%	**$137,018**	$1,130,640
MACHIAS	$20.00	115.00%	**$182,452**	$377,996
MACHIASPORT	$18.20	89.00%	**$50,562**	$123,461
MACWAHOC PLT	$18.00	100.00%	**$4,076**	$33,631
MADAWASKA	$17.40	110.00%	**$303,793**	$637,616
MADISON	$19.50	100.00%	**$241,762**	$811,774
MANCHESTER	$15.35	100.00%	**$102,417**	$1,327,733
MAPLETON	$14.90	100.00%	**$71,905**	$503,201
MARIAVILLE	$13.30	100.00%	**$17,196**	$87,323
MARS HILL	$27.75	80.00%	**$75,819**	$350,839
MARSHFIELD	$15.75	102.00%	**$25,262**	$99,011
MASARDIS	$18.00	100.00%	**$13,690**	$26,796
MATTAWAMKEAG	$20.38	100.00%	**$43,252**	$82,124
MECHANIC FALLS	$21.20	100.00%	**$179,265**	$560,387
MEDDYBUMPS	$7.45	100.00%	**$3,636**	$23,792
MEDFORD	$21.00	100.00%	**$16,919**	$36,773
MEDWAY	$26.00	100.00%	**$116,135**	$221,150
MERCER	$15.24	100.00%	**$31,663**	$136,616
MEXICO	$26.00	100.00%	**$290,806**	$363,239
MILBRIDGE	$15.60	100.00%	**$56,499**	$211,867

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
MILFORD	$16.60	100.00%	**$184,180**	$700,235
MILLINOCKET	$29.60	100.00%	**$424,672**	$773,535
MILO	$21.30	100.00%	**$197,928**	$284,870
MINOT	$15.00	100.00%	**$123,096**	$873,682
MONMOUTH	$15.60	100.00%	**$179,162**	$1,095,323
MONROE	$21.00	84.00%	**$48,519**	$155,359
MONSON	$14.25	100.00%	**$24,440**	$73,612
MONTICELLO	$18.50	100.00%	**$37,832**	$117,860
MONTVILLE	$16.60	98.00%	**$48,186**	$155,578
MOOSE RIVER	$16.50	100.00%	**$9,496**	$20,874
MORRILL	$20.70	85.00%	**$33,609**	$192,262
MOSCOW	$19.00	68.00%	**$24,280**	$33,973
MOUNT DESERT	$6.78	100.00%	**$31,358**	$1,049,127
MOUNT VERNON	$15.20	100.00%	**$61,630**	$392,488
NAPLES	$13.55	100.00%	**$141,843**	$882,278
NEW CANADA PLT	$19.00	105.00%	**$10,604**	$57,315
NEW GLOUCESTER	$14.50	100.00%	**$191,515**	$1,799,513
NEW LIMERICK	$8.00	89.00%	**$5,051**	$109,398
NEW PORTLAND	$17.00	100.00%	**$35,472**	$126,992
NEW SHARON	$15.20	100.00%	**$55,840**	$286,016
NEW SWEDEN	$21.90	100.00%	**$26,183**	$96,557
NEW VINEYARD	$13.55	100.00%	**$20,264**	$137,468
NEWBURGH	$14.30	100.00%	**$62,877**	$420,076
NEWCASTLE	$17.40	95.00%	**$65,805**	$628,589
NEWFIELD	$9.30	110.00%	**$36,269**	$280,710
NEWPORT	$17.20	100.00%	**$155,766**	$655,317
NEWRY	$9.05	100.00%	**$6,637**	$120,288
NOBLEBORO	$10.20	100.00%	**$45,114**	$473,584
NORRIDGEWOCK	$21.25	75.00%	**$166,398**	$687,871
NORTH BERWICK	$12.45	100.00%	**$144,109**	$1,403,213
NORTH HAVEN	$9.46	89.00%	**$6,467**	$108,062
NORTH YARMOUTH	$17.15	100.00%	**$169,518**	$1,937,568
NORTHPORT	$16.30	97.00%	**$44,440**	$451,686
NORWAY	$15.20	100.00%	**$227,316**	$1,099,833
OAKFIELD	$17.36	100.00%	**$41,638**	$99,461
OAKLAND	$14.75	100.00%	**$245,510**	$1,857,748
OGUNQUIT	$7.76	100.00%	**$16,931**	$797,442
OLD ORCHARD BEACH	$14.88	100.00%	**$380,040**	$2,390,216
OLD TOWN	$20.21	100.00%	**$509,701**	$1,669,260

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
ORIENT	$11.20	100.00%	**$4,375**	$13,016
ORLAND	$14.20	100.00%	**$77,852**	$501,228
ORONO	$23.85	100.00%	**$866,015**	$1,639,624
ORRINGTON	$14.35	100.00%	**$162,959**	$1,072,630
OTIS	$8.15	100.00%	**$11,883**	$144,680
OTISFIELD	$12.00	100.00%	**$47,457**	$324,352
OWLS HEAD	$9.60	100.00%	**$37,890**	$455,909
OXFORD	$12.25	100.00%	**$149,213**	$740,358
PALERMO	$12.70	110.00%	**$51,453**	$324,577
PALMYRA	$15.30	100.00%	**$73,330**	$285,876
PARIS	$17.90	100.00%	**$211,370**	$965,250
PARKMAN	$11.90	100.00%	**$29,504**	$95,030
PARSONFIELD	$14.60	100.00%	**$92,535**	$385,506
PASSADUMKEAG	$21.30	100.00%	**$17,661**	$53,710
PATTEN	$24.00	91.00%	**$69,644**	$151,057
PEMBROKE	$20.00	100.00%	**$43,864**	$114,198
PENOBSCOT	$9.75	100.00%	**$27,240**	$350,908
PERHAM	$16.80	100.00%	**$20,323**	$56,442
PERRY	$15.40	100.00%	**$32,390**	$190,743
PERU	$18.50	100.00%	**$76,611**	$372,004
PHILLIPS	$20.80	100.00%	**$62,268**	$172,334
PHIPPSBURG	$7.80	100.00%	**$43,051**	$664,522
PITTSFIELD	$19.10	100.00%	**$224,518**	$882,725
PITTSTON	$13.10	100.00%	**$84,327**	$639,510
PLYMOUTH	$14.50	100.00%	**$45,419**	$218,891
POLAND	$14.00	100.00%	**$220,452**	$1,559,959
PORTAGE LAKE	$14.00	100.00%	**$15,227**	$60,647
PORTER	$13.50	100.00%	**$70,022**	$205,772
PORTLAND	$20.00	100.00%	**$4,236,475**	$25,082,646
POWNAL	$34.50	53.00%	**$68,427**	$584,877
PRESQUE ISLE	$25.42	97.00%	**$775,619**	$2,081,293
PRINCETON	$16.15	100.00%	**$40,466**	$176,508
PROSPECT	$15.00	100.00%	**$36,171**	$121,177
RANDOLPH	$17.55	100.00%	**$85,115**	$329,993
RANGELEY	$11.55	100.00%	**$29,095**	$411,594
RAYMOND	$11.80	100.00%	**$117,531**	$1,858,413
READFIELD	$18.50	100.00%	**$117,065**	$795,436
RICHMOND	$19.30	100.00%	**$179,873**	$773,736
RIPLEY	$18.00	94.00%	**$22,534**	$79,212

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
ROBBINSTON	$20.50	90.00%	**$23,169**	$108,875
ROCKLAND	$20.16	100.00%	**$503,272**	$1,451,034
ROCKPORT	$12.99	100.00%	**$126,807**	$1,613,675
ROME	$7.40	100.00%	**$19,449**	$239,736
ROQUE BLUFFS	$9.95	86.00%	**$7,321**	$44,092
ROXBURY	$7.72	100.00%	**$13,593**	$65,026
RUMFORD	$26.95	86.00%	**$433,431**	$943,710
SABATTUS	$17.80	100.00%	**$221,086**	$1,155,528
SACO	$18.62	95.00%	**$904,900**	$6,105,287
SAINT AGATHA	$18.50	80.00%	**$33,103**	$165,832
SAINT ALBANS	$19.40	80.00%	**$81,728**	$311,668
SAINT FRANCIS	N/A	N/A	**$15,010**	$51,213
SAINT GEORGE	$8.00	100.00%	**$82,110**	$547,995
SAINT JOHN PLT	$7.70	100.00%	**$6,551**	$42,009
SANFORD	$21.62	100.00%	**$1,261,242**	$4,411,808
SANGERVILLE	$17.70	100.00%	**$67,731**	$167,380
SCARBOROUGH	$15.10	100.00%	**$782,212**	$10,117,937
SEARSMONT	$19.50	100.00%	**$55,182**	$326,900
SEARSPORT	$22.70	93.00%	**$142,620**	$527,605
SEBAGO	$13.34	100.00%	**$64,659**	$434,971
SEBEC	$10.50	110.00%	**$21,716**	$103,300
SEDGWICK	$10.32	100.00%	**$29,643**	$230,756
SHAPLEIGH	$9.65	110.00%	**$64,992**	$660,307
SHERMAN	$20.00	100.00%	**$52,117**	$104,392
SHIRLEY/SHIRLEY MILLS	$11.20	100.00%	**$6,997**	$19,748
SIDNEY	$10.85	100.00%	**$98,876**	$1,315,982
SKOWHEGAN	$17.15	100.00%	**$406,172**	$1,961,049
SMITHFIELD	$15.91	100.00%	**$43,066**	$236,898
SMYRNA	$17.00	100.00%	**$22,754**	$75,771
SOLON	$16.60	100.00%	**$44,410**	$151,261
SOMERVILLE	$15.40	95.00%	**$21,708**	$65,914
SORRENTO	$7.20	100.00%	**$4,048**	$105,965
SOUTH BERWICK	$17.70	100.00%	**$374,447**	$2,437,379
SOUTH BRISTOL	$3.10	120.00%	**$8,159**	$338,918
SOUTH PORTLAND	$17.10	100.00%	**$1,294,642**	$8,498,986
SOUTH THOMASTON	$12.46	100.00%	**$59,454**	$608,853
SOUTHPORT	$3.20	100.00%	**$6,071**	$214,935
SOUTHWEST HARBOR	$12.86	100.00%	**$54,155**	$611,843
SPRINGFIELD	$23.00	92.00%	**$29,167**	$49,331

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
STACYVILLE	$21.00	100.00%	**$27,060**	$39,275
STANDISH	$12.16	100.00%	**$283,985**	$2,857,656
STARKS	$19.50	85.00%	**$44,488**	$61,444
STETSON	N/A	N/A	**$52,883**	$227,402
STEUBEN	$15.20	110.00%	**$51,015**	$132,961
STOCKHOLM	$16.90	100.00%	**$13,614**	$82,680
STOCKTON SPRINGS	$19.25	110.00%	**$78,130**	$355,484
STONEHAM	$7.80	100.00%	**$4,050**	$45,671
STONINGTON	$15.10	82.00%	**$23,957**	$285,429
STOW	$11.50	110.00%	**$14,444**	$50,078
STRONG	$13.60	100.00%	**$41,361**	$284,790
SULLIVAN	$10.75	110.00%	**$36,730**	$197,283
SUMNER	$16.00	100.00%	**$54,540**	$142,461
SURRY	$7.15	100.00%	**$25,572**	$468,668
SWANS ISLAND	$10.35	100.00%	**$7,515**	$75,140
SWANVILLE	$17.50	100.00%	**$58,595**	$239,405
SWEDEN	$11.65	110.00%	**$15,400**	$105,740
TEMPLE	$18.50	110.00%	**$25,824**	$122,251
THOMASTON	$16.64	100.00%	**$155,101**	$597,100
THORNDIKE	$15.20	100.00%	**$26,100**	$141,021
TOPSFIELD	$12.25	105.00%	**$9,069**	$34,717
TOPSHAM	$17.33	100.00%	**$511,600**	$3,300,295
TREMONT	$8.84	100.00%	**$31,004**	$324,895
TRENTON	$10.20	100.00%	**$50,787**	$357,129
TROY	$13.90	100.00%	**$40,761**	$144,196
TURNER	$15.70	85.00%	**$185,139**	$1,670,861
UNION	$15.90	100.00%	**$93,439**	$576,236
UNITY	$14.80	100.00%	**$67,517**	$284,016
VAN BUREN	$24.25	88.00%	**$159,756**	$285,572
VANCEBORO	$26.40	100.00%	**$11,666**	$15,628
VASSALBORO	$12.80	100.00%	**$118,857**	$1,078,541
VEAZIE	$17.75	100.00%	**$129,068**	$684,403
VERONA	$11.65	100.00%	**$18,192**	$84,671
VIENNA	$17.20	100.00%	**$22,218**	$119,179
VINALHAVEN	$9.95	100.00%	**$24,587**	$255,761
WADE	$19.00	100.00%	**$16,356**	$31,005
WALDO	$12.70	100.00%	**$23,395**	$174,153
WALDOBORO	$13.70	110.00%	**$223,455**	$965,626
WALES	$16.70	110.00%	**$80,002**	$405,744

MUNICIPALITY	PROPERTY TAX RATE	% VALUATION	2014 REVENUE SHARING	INCOME TAX CUT
WALLAGRASS	$13.60	100.00%	**$23,646**	$105,137
WALTHAM	$12.60	100.00%	**$13,246**	$71,612
WARREN	$16.10	100.00%	**$198,684**	$843,990
WASHBURN	$27.50	82.00%	**$123,389**	$271,934
WASHINGTON	$13.50	100.00%	**$48,206**	$274,284
WATERBORO	$13.99	100.00%	**$306,043**	$1,837,643
WATERFORD	$14.30	82.00%	**$43,569**	$342,697
WATERVILLE	$27.40	87.00%	**$1,092,723**	$2,929,423
WAYNE	$14.37	100.00%	**$47,752**	$408,865
WELD	$6.01	100.00%	**$6,116**	$92,574
WELLINGTON	$13.45	100.00%	**$9,442**	$15,901
WELLS	$9.50	100.00%	**$226,718**	$3,314,522
WESLEY	$16.90	100.00%	**$3,628**	$17,706
WEST BATH	$10.20	100.00%	**$53,093**	$558,943
WEST GARDINER	$11.10	100.00%	**$98,322**	$875,477
WEST PARIS	$17.00	100.00%	**$77,249**	$245,758
WESTBROOK	$17.20	100.00%	**$1,046,417**	$4,640,794
WESTFIELD	$19.78	95.00%	**$32,478**	$83,966
WESTON	$14.60	100.00%	**$7,187**	$15,737
WESTPORT	$7.51	122.00%	**$15,148**	$225,229
WHITEFIELD	$14.25	100.00%	**$97,886**	$501,048
WHITING	$12.95	100.00%	**$14,176**	$70,091
WHITNEYVILLE	$16.70	100.00%	**$8,571**	$23,995
WILTON	$17.35	100.00%	**$197,262**	$821,131
WINDHAM	$14.67	100.00%	**$724,765**	$5,813,370
WINDSOR	$13.00	100.00%	**$99,504**	$541,102
WINN	$16.50	100.00%	**$22,907**	$113,553
WINSLOW	$15.50	100.00%	**$393,780**	$2,118,826
WINTER HARBOR	$7.85	100.00%	**$8,012**	$129,671
WINTERPORT	$13.39	100.00%	**$135,286**	$999,149
WINTERVILLE PLT	$13.60	100.00%	**$7,500**	$20,662
WINTHROP	$15.28	100.00%	**$266,722**	$1,985,081
WISCASSET	$17.00	100.00%	**$199,594**	$893,048
WOODLAND	$20.50	92.00%	**$54,785**	$177,856
WOODSTOCK	$11.95	100.00%	**$38,634**	$284,172
WOODVILLE	$17.40	100.00%	**$11,107**	$28,142
WOOLWICH	$14.30	100.00%	**$96,989**	$1,109,184
YARMOUTH	$21.60	100.00%	**$536,704**	$5,811,269
YORK	$10.70	100.00%	**$296,310**	$6,700,868

IMPACT ON
MAINE TAXPAYERS

One of the most important questions we have to answer is *what is the impact of this budget on every day Maine citizens?*

To answer that question, we evaluated ten hypothetical taxpayers, and analyzed what they currently owe in taxes compared to what they would potentially owe under this budget.

A number of other groups, including the *Portland Press Herald*, the governor himself, and a number of private citizens have attempted to show what the changes to Maine's tax code would mean for you, but none of been comprehensive enough, or taken a look at specific cases with a great deal of detail. Other independent budget analyses have provided too few examples of how the governor's proposal will affect Maine individuals and families.

The analysis conducted by The Maine Heritage Policy Center seeks to appropriately represent Maine's population, and as such we have laid out numerous examples and hypothetical scenarios, that most accurately described the full impact of the governor's tax proposal.

For our analysis, we chose to evaluate the following:

1. The income tax
2. The sales tax
3. Property taxes

To do that, we took into account the sales tax fairness credit, and the property tax fairness credit, as well as the hypothetical impact the loss of revenue sharing may have on individual homeowners, should their town choose to raise taxes to make up the difference.

Sales tax burdens were calculated using purchasing patterns of average consumers of applicable income levels. Consumer purchasing patterns were derived from several sources, primarily the U.S. Department of Labor's Bureau of Labor and Statistics. Calculations did not assume that tax rate changes would influence consumer behavior, and therefore assumed that purchasing patterns would remain constant over time.

Property tax changes were much more hypothetical. For the purposes of our analysis, we decided to use a *worst case scenario*, whereby the town in question would respond to the loss of revenue sharing by raising property taxes on town residents to a level that would recoup the money lost. Where you see property tax numbers go up, you are seeing what *could* happen, not what will happen.

In reality, towns will all respond differently. The only fair way to evaluate these situations is to assume the worst, so we can be aware of what the most property tax damage could be.

Also, a note about renters. Although renters do not directly pay property taxes, they often absorb the cost of these taxes, as they can be passed down to them in the form of higher rents or fewer utilities being paid for by landlords. The total property tax burden used for these filers does not take into account the Homestead Exemption or Property Tax Fairness Credit, and thus is a maximum amount. Totals were calculated using 2014 property tax rates.

25 YEAR OLD RETAIL EMPLOYEE

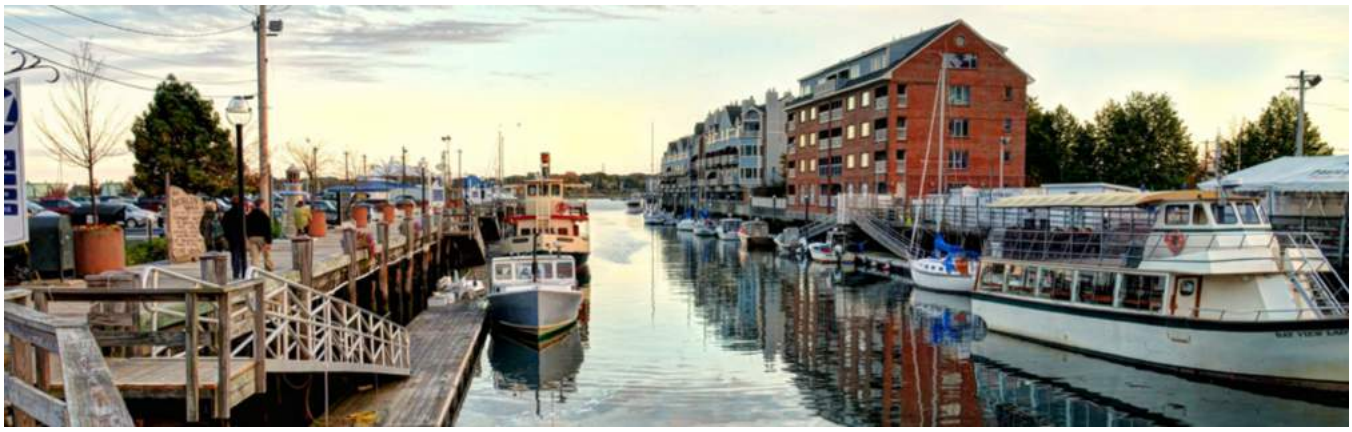
PORTLAND

In our first scenario, we have a 25 year old male who works at a big box retail store. He is single, has no dependents, and rents an apartment with several roommates, putting his share of the rent at around $600. He works irregular shifts and is paid by the hour, but manages to earn $24,000 in a year.

Under the proposed budget, his income tax burden will go down significantly. As is the case with all our scenarios, the amount of money spent on sales tax will go up slightly, though not by a significant amount. He will also gain a $170 refundable sales tax fairness credit.

As he is a renter, any potential increases in property taxes in the city of Portland to respond to revenue sharing will not directly impact him. However, they do have the potential to impact his landlord, and depending on how much that tax goes up (our hypothetical example here suggests it would be quite small), the landlord would likely pass along the cost to his tenant in the way of slightly higher rent.

However, it is clear that even if that were to happen, this individual would be saving a significant amount of money under this plan.



Tax implications for this filer

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$305.50	$11.50	$11.50	$11.50	$11.50
Sales Tax Burden	$273.00	$309.00	$309.00	$309.00	$309.00
Income Tax Sales Tax Fairness Credit	N/A	$170.00	$170.00	$170.00	$170.00
Share of Landlord's Maximum Property Tax Burden	$1,960.97	$2,009.99	$2,009.99	$2,009.99	$2,009.99
Total Tax Burden	**$2,539.47**	**$2,160.49**	**$2,160.49**	**$2,160.49**	**$2,160.49**
Change from Current Tax Burden	**N/A**	**($378.98)**	**($378.98)**	**($378.98)**	**($378.98)**

YOUNG COLLEGE STUDENTS

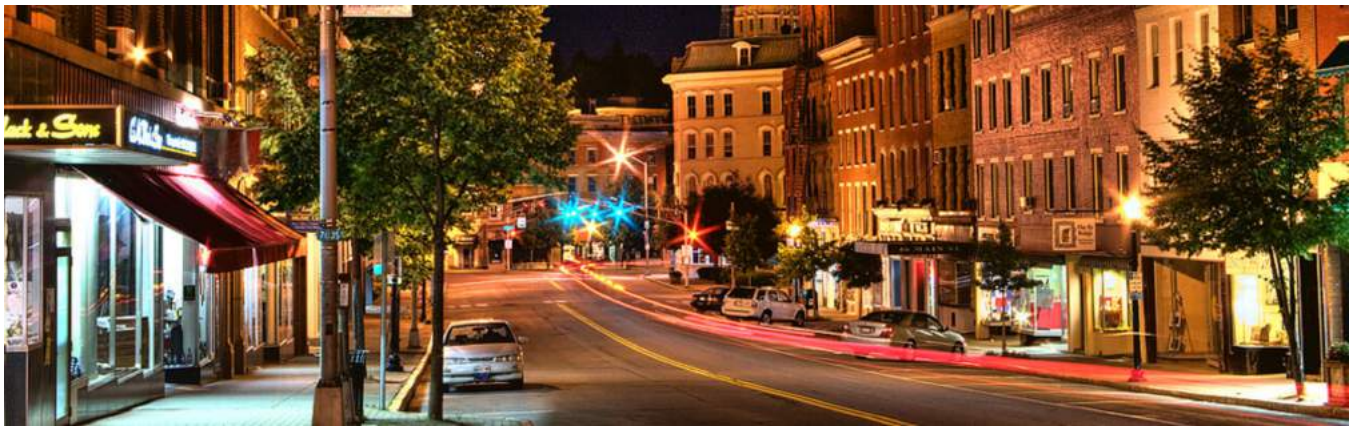
BANGOR

Next we have a young couple, attending the University of Maine and living in Bangor.

He is 22 and she is 20, and they rent out the second floor of a two story house, which costs them $800 per month. They have no children, and file their taxes separately. He makes $12,000 working as a server at a restaurant in Orono, and she makes $18,000 working retail in Bangor.

Under the proposed budget, there is no change to their income tax expenditures, as they already paid nothing. A marginal increase in the sales tax would drive up costs for them slightly, but their ability to make use of the sales tax fairness credit would allow them to save significant money each year between the two of them ($450.76 in this case).

As they are renters, any potential increases in property taxes in the city of Bangor to respond to revenue sharing will not directly impact them. However, they do have the potential to impact his landlord, and depending on how much that tax goes up, the landlord would likely pass along the cost to his tenant in the way of slightly higher rent.



Tax implications for these filers

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$0	$0	$0	$0	$0
Sales Tax Burden	$399.00	$462.00	$462.00	$462.00	$462.00
Income Tax Sales Tax Fairness Credit	N/A	$640.00	$640.00	$640.00	$640.00
Share of Landlord's Maximum Property Tax Burden	$1,627.07	$1,753.31	$1,753.31	$1,753.31	$1,753.31
Total Tax Burden	**$2,026.07**	**$1,575.31**	**$1,575.31**	**$1,575.31**	**$1,575.31**
Change from Current Tax Burden	**N/A**	**($450.76)**	**($450.76)**	**($450.76)**	**($450.76)**

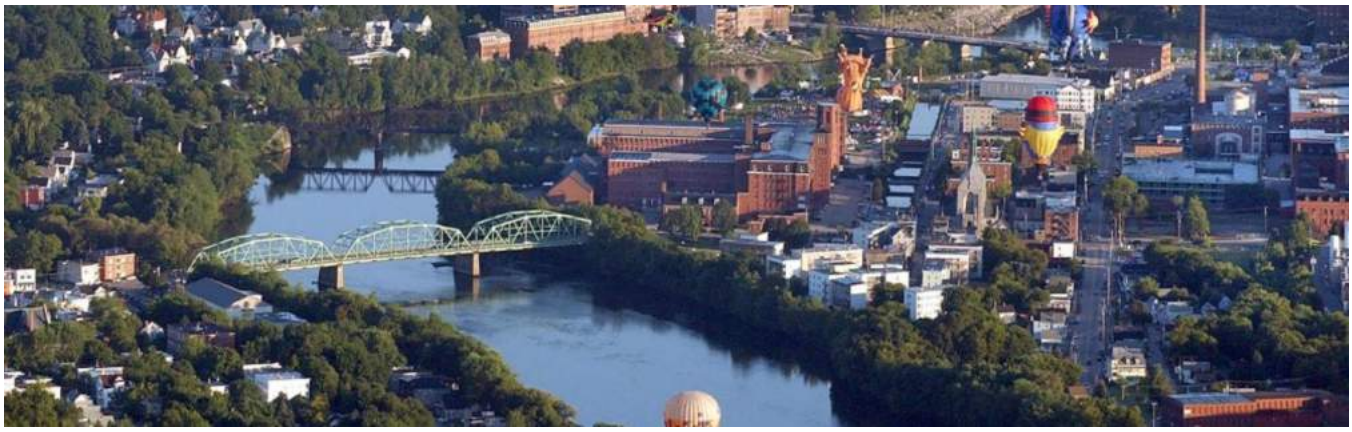
35 YEAR OLD BUSINESS OWNER

LEWISTON

Next we go to Lewiston, to look at a single, 35 year old male who owns a successful business. This filer earns $250,000 a year, and itemizes his deductions. He owns a home, which is valued at $300,000.

Under the budget proposal, he would see a very small amount of income tax saving in the first year, followed by more significant savings in year two, three and four. His sales tax burden would only marginally increase, and he would not be subject to the sales tax fairness credit or the property tax fairness credit.

If Lewiston were to respond to the loss of revenue sharing by raising property taxes to compensate, it is likely this filer would see several hundred dollars of additional property tax costs. The accumulation of those new taxes, and the delayed phase in of many of his income tax savings would cause him to pay more in taxes in 2016 than her currently pays. However, by year two he begins to save money, and by year three and four, he is saving significant sums of money on his taxes.



Tax implications for this filer

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$15,468.54	$15,237.05	$14,752.00	$14,173.50	$13,618.75
Sales Tax Burden	$1,467.00	$1,506.00	$1,506.00	$1,506.00	$1,506.00
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$7,711.10	$8,112	$8,112	$8,112	$8,112
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$24,646.64**	**$24,855.05**	**$24,370.00**	**$23,791.50**	**$23,561.75**
Change from Current Tax Burden	**N/A**	**$208.41**	**($276.64)**	**($855.14)**	**($1,084.89)**

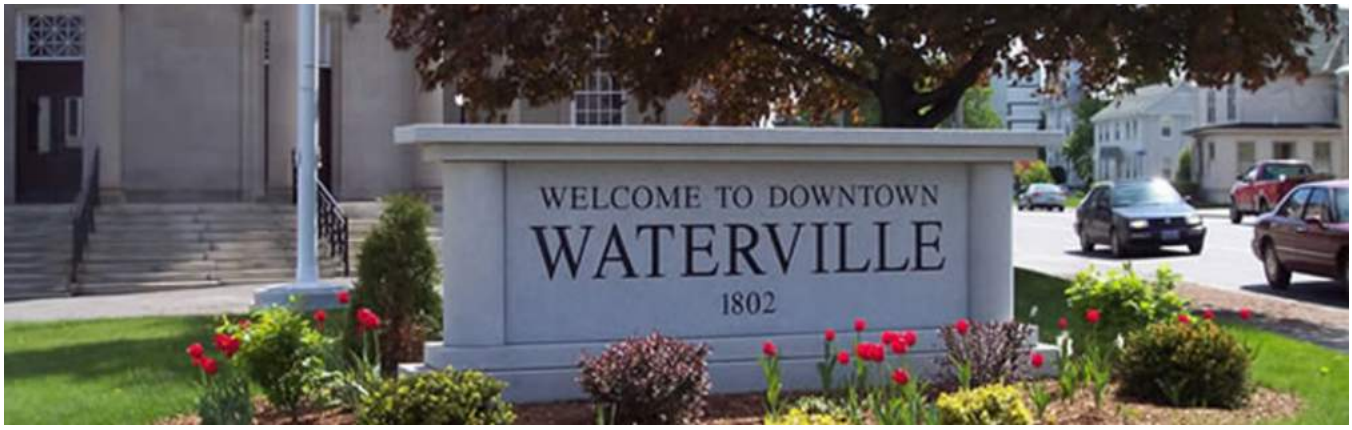
RETIRED COUPLE

WATERVILLE

Our next filers are a retired couple from Waterville. He is 72, and she is 68. Neither earns any income any longer from the workforce, though he does collect a pension that accounts for $30,000 each year, and they collect Social Security. They own their home, which is worth $110,000 and is fully paid off.

This couple would see no change in income taxes, as they no longer draw an income. The additional sales tax rates and extensions would raise their costs, while their overall property tax liability would go down, due to the homestead exemption changes for Maine residents over the age of 65.

When all is said and done, the tax burden for this hypothetical couple drops by roughly $45, which is more or less a neutral change for them, in reality.



Tax implications for these filers

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$0	$0	$0	$0	$0
Sales Tax Burden	$241.20	$321.60	$321.60	$321.60	$321.60
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$2,740.00	$2,614.50	$2,614.50	$2,614.50	$2,614.50
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$2,981.20**	**$2,936.10**	**$2,936.10**	**$2,936.10**	**$2,936.10**
Change from Current Tax Burden	**N/A**	**($45)**	**($45)**	**($45)**	**($45)**

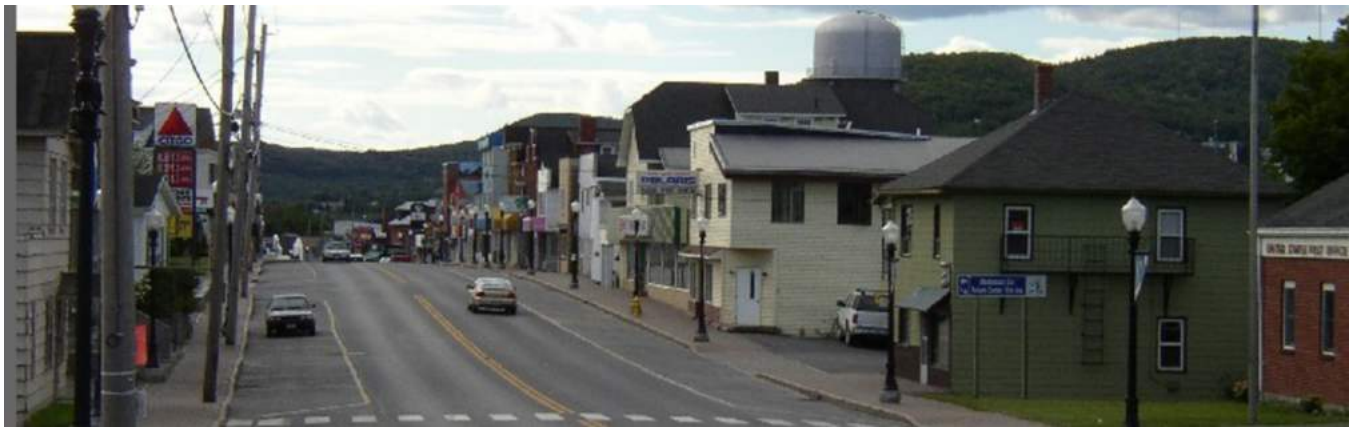
MARRIED COUPLE

MADAWASKA

Here we have a 45 year old married man, and his wife of the same age. He works at the Twin Rivers paper mill, and earns about $60,000 per year in income, while she stays home with their only child. They own their own home, which is worth $130,000, and pay a mortgage on it of $650 per month.

For this couple, they will see nearly $500 of income tax savings right away. Additionally, they will pay nearly $100 more per year in sales tax, and will not be subject to the sales tax fairness credit. If Madawaska responds to the loss of revenue sharing by raising property taxes, they can expect their yearly bill to go up several hundred dollars.

After looking at this couple, the tax reform proposal is more or less a wash for them. However, it is important to note that that evaluation is based on a *worst case scenario* related to their property taxes. If Madawaska cuts spending, collaborates with its neighbors for resource sharing, or finds another way to make up the loss of revenue sharing, their property taxes would not go up to that degree, and they would end up saving money.



Tax implications for these filers

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$1,219.75	$787.75	$787.75	$787.75	$787.75
Sales Tax Burden	$300.00	$399.00	$399.00	$399.00	$399.00
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$2,148.00	$2,531.10	$2,531.10	$2,531.10	$2,531.10
Property Tax Fairness Credit	N/A	$0	$0	$0	$0
Total Tax Burden	**$3,667.75**	**$3,717.85**	**$3,717.85**	**$3,717.85**	**$3,717.85**
Change from Current Tax Burden	**N/A**	**$50.10**	**$50.10**	**$50.10**	**$50.10**

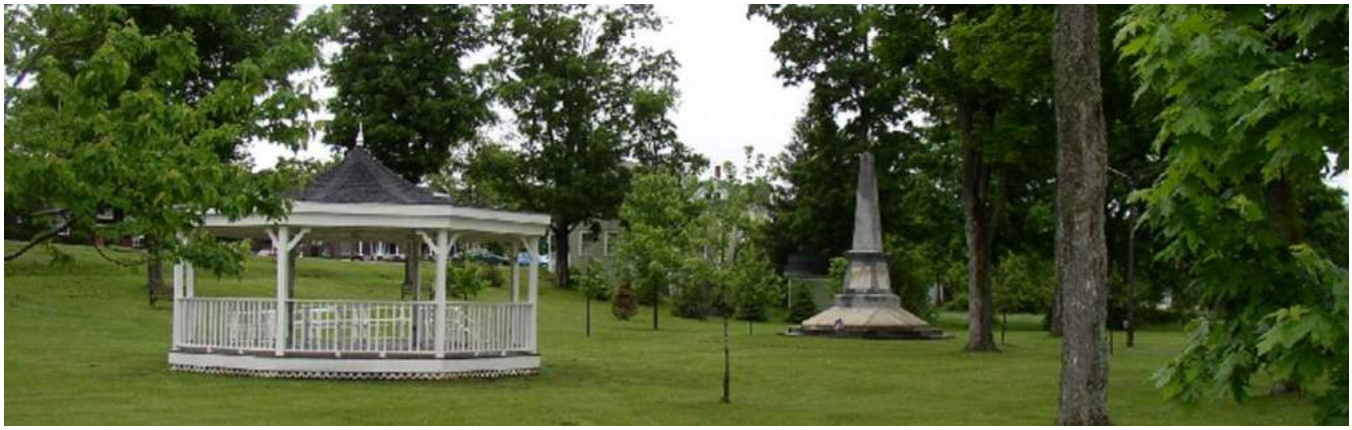
YOUNG TEACHER

PARIS

A 32 year old single female resides in Paris, Maine, and works as a High School teacher at Oxford Hills. She rents a house with a roommate, and her share of the rent is roughly $500. She earns $36,000 a year, and has no dependents.

This individual would see a tax cut of almost $400, as well as a marginal increase in sales tax expense. As she is a renter, any potential increases in property taxes in the town of Paris to respond to revenue sharing will not directly impact her. However, they do have the potential to impact her landlord, and depending on how much that tax goes up, the landlord would likely pass along the cost to his tenant in the way of slightly higher rent.

Still, after all is said and done, this individual would be saving a nearly $300 under this plan.



Tax implications for this filer

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$1,100.50	$701.50	$701.50	$701.50	$701.50
Sales Tax Burden	$300	$320.40	$320.40	$320.40	$320.40
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
*Share of Landlord's Maximum Property Tax Burden**	$1,043.80	$1,125.44	$1,125.44	$1,125.44	$1,125.44
Total Tax Burden	**$2,444.30**	**$2,147.34**	**$2,147.34**	**$2,147.34**	**$2,147.34**
Change from Current Tax Burden	**N/A**	**($296.96)**	**($296.96)**	**($296.96)**	**($296.96)**

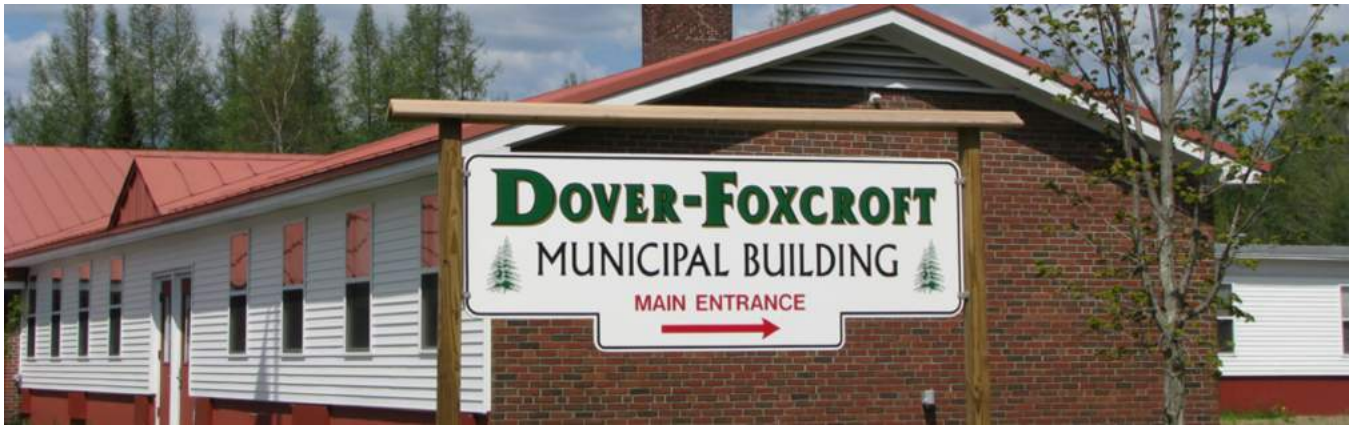
TRUCK DRIVER

DOVER-FOXCROFT

In Dover-Foxcroft we have a divorced trucker who is currently living alone in a home that he owns, worth $85,000. He earns $46,000 a year.

This taxpayer will see his income tax go down by almost $700 immediately. As is common among most of our hypothetical examples, his additional sales tax burden is marginal, and he does not have access to the sales tax fairness credit. If Dover-Foxcroft responds to the loss of revenue sharing by raising property taxes, he can expect his yearly bill to go up by up to $300.

Even with that highly speculative jump in property taxes, he would still be saving $339.95 per year, a significant savings.



Tax implications for this filer

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$2,134	$1,449	$1,449	$1,449	$1,449
Sales Tax Burden	$510	$540	$540	$540	$540
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$1,323.75	$1,638.80	$1,638.80	$1,638.80	$1,638.80
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$3,967.75**	**$3,627.80**	**$3,627.80**	**$3,627.80**	**$3,627.80**
Change from Current Tax Burden	**N/A**	**($339.95)**	**($339.95)**	**($339.95)**	**($339.95)**

WEALTHY COUPLE

WINTERPORT

Next we turn to central Maine, and a married couple living in Winterport. Both 50, they have two kids, one of whom is a dependent. The male is in sales and earns $70,000, while the female works in Bangor as an attorney and earns $115,000. The couple itemizes their deductions. They own a home together, which is worth $225,000.

Over the course of the next four years, the couple will see significant tax savings, which grow each year. Their sales tax burden will rise by about $150 per year, and there is potential that they would have to pay another $400 in property taxes, if Winterport decides to raise taxes to make up for the loss of revenue sharing.

Despite the increase in sales and property tax, the couple will still save $400.04 in the first year, increasing up to $898.41 when the tax changes have fully phased in.

Tax implications for these filers

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$10,972.41	$10,014.16	$9,867.25	$9,664.44	$9,515.75
Sales Tax Burden	$762	$918	$918	$918	$918
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$2,848.75	$3,251	$3,251	$3,251	$3,251
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$14,583.16**	**$14,183.16**	**$14,036.25**	**$13,833.44**	**$13,684.75**
Change from Current Tax Burden	**N/A**	**($400.04)**	**($546.91)**	**($749.72)**	**($898.41)**

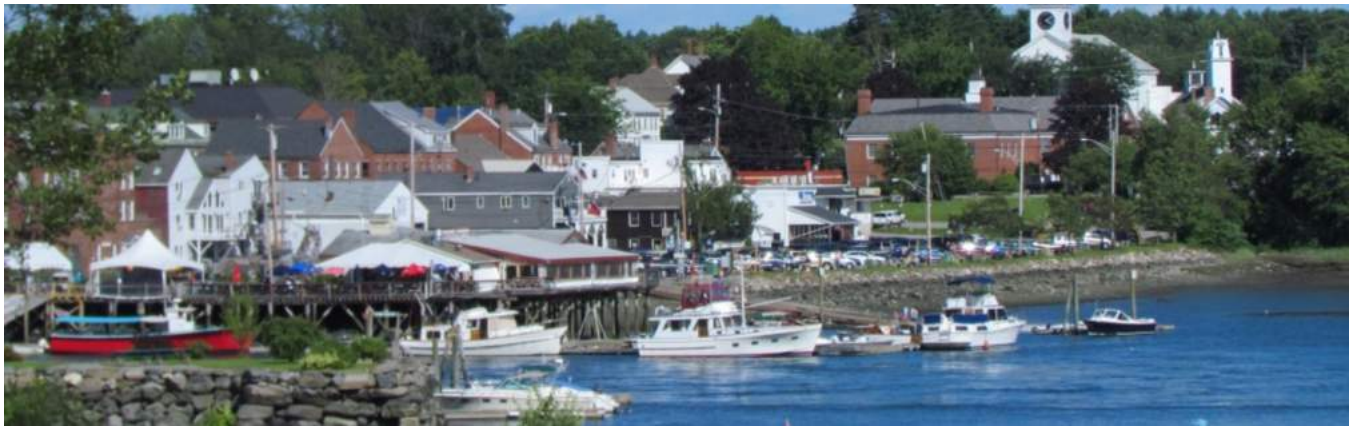
MARRIED COUPLE

DAMARISCOTTA

Next we find an upper middle class married couple in Damariscotta. The husband is an accountant, and earns $52,000 per year, while the wife has a part time job as a nurse at Lincoln County HealthCare, which earns her $32,000. They have two children, both of which are still at home. They also own their own home, which is worth $240,000.

This couple will save about $900 in income taxes immediately. Their sales tax expenditures will go up slightly, and they will not be subject to the sales tax fairness credit, nor the property tax fairness credit. If Damariscotta chooses to fill the cap in revenue sharing by raising property taxes, this couple can expect to pay an additional $300, approximately, to their town each year.

This puts their total tax savings at $976.95.



Tax implications for these filers

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$2,853.48	$1,969.38	$1,969.38	$1,969.38	$1,969.38
Sales Tax Burden	$429	$462.96	$462.96	$462.96	$462.96
Income Tax Sales Tax Fairness Credit	N/A	$0	$0	$0	$0
Property Tax Burden	$3,473	$3,775.20	$3,775.20	$3,775.20	$3,775.20
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$7,184.48**	**$6,207.54**	**$6,207.54**	**$6,207.54**	**$6,207.54**
Change from Current Tax Burden	**N/A**	**($976.95)**	**($976.95)**	**($976.95)**	**($976.95)**

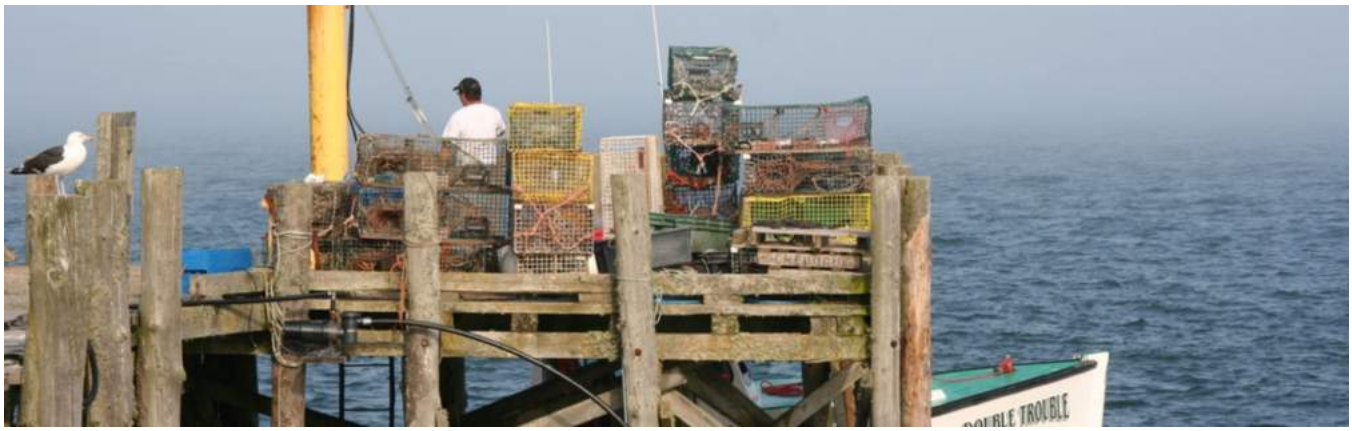
LOBSTER FISHERMAN

EASTPORT

Finally, we have a widowed lobster fisherman, 52 years old, who is living alone in Eastport. He earns $67,000 per year and owns a home worth $120,000, which is fully paid off.

In income tax, he would save more than $1,000 dollars right away in 2016. However, he would also be subject to more sales tax, as well as the potential for more than $400 in additional property tax payments to Eastport, depending on how they choose to manage their budget.

Still, even with those additional costs, this lobsterman is saving $469.65.



Tax implications for this filer

Tax Burden	Current	2016	2017	2018	2019
Income Tax Burden	$3,565	$2,518.55	$2,518.55	$2,512.75	$2,505.50
Sales Tax Burden	$399	$519	$519	$519	$519
Income Tax Sales Tax Fairness Credit	N/A	N/A	N/A	N/A	N/A
Property Tax Burden	$2,530	$2,986.80	$2,986.80	$2,986.80	$2,986.80
Property Tax Fairness Credit	$0	$0	$0	$0	$0
Total Tax Burden	**$6,494**	**$6,024.35**	**$6,024.35**	**$6,018.55**	**$6,011.30**
Change from Current Tax Burden	**N/A**	**($469.65)**	**($469.65)**	**($475.45)**	**($482.70)**

IMPACT ON
MAINE BUSINESSES

Beyond the practical impact on individual Maine taxpayers, the governor's proposed budget makes significant changes to the corporate income tax rate, including a simplification of the number of brackets, and a major reduction in rates.

The hope of such cuts is that they will help make Maine a more attractive destination for businesses to relocate to, and make the state easier for those who are already residents to start and grow a business here. The cost of doing business has implications for a corporation's ability to make profit, as well as make capital investments, hire workers, and increase wages, all desperately needed in the Maine business community.

Far and away the best prize that life offers is the chance to work hard at work worth doing.

~Theodore Roosevelt

To analyze what this change will mean, The Maine Heritage Policy Center is taking a look at three distinct examples of hypothetical Maine businesses, to evaluate the proposed changes.

Our analysis takes a look at two main factors: the income tax, and the property tax, which together create the total tax burden that a business is responsible for.

A General Store in Lewiston

Our first example is a general store in Lewiston. The store in question earns $900,000 per year in income, and has a property that is valued at $128,000. Much like the income tax examples cited earlier, we are going to make *worst case* assumptions about the property tax, which in this case could rise from $26.59 to $27.04.

In the first year of the new budget, this general store would save about $4,100 in taxes, which gradually increases to almost $11,000 by 2019. The $11,000 savings per year could therefore be applied to investments in the store, or perhaps the hiring of a part time employee.

Figure 16. Lewiston Restaurant

TAX BURDEN	CURRENT	2017	2018	2019
Income Tax Burden	$77,463	$73,315	$70,262.50	$66,500
Property Tax Burden	$3,403.52	$3,461.12	$3,461.12	$3,461.12
Total Tax Burden	$80,866.52	$76,776.12	$72,723.62	$69,961.12

A Factory in Portland

Our second example is a factory in Portland. The factory earns $9.18 million per year in income, and has a property that is valued at $3.23 million. Our assumptions about the hike in the property tax would theoretically raise the rate in this case from $20 to $20.50.

In the first year of the new budget, this general store would save about $31,000 in taxes, which gradually increases to roughly $106,000 by 2019. The yearly savings of more than $100,000 could therefore be applied to investments in the factory, additional employees, or increased capacity.

Figure 17. Portland Factory

TAX BURDEN	CURRENT	2017	2018	2019
Income Tax Burden	$816,867	$763,286.50	$726,866.50	$687,500
High-Technology Investment Tax Credit	$21,000	N/A	N/A	N/A
Property Tax Burden	$64,600	$66,215	$66,215	$66,215
Total Tax Burden	$860,467	$829,501.50	$793,081.50	$753,715

A Small Restaurant in Caribou

Our final example is a small restaurant in Caribou. The restaurant earns $300,000 per year in income, and has a property that is valued at $123,000. Our assumptions about the hike in the property tax would theoretically raise the rate in this case from $22.30 to $23.90.

In the first year of the new budget, this general store would save about $1,000 in taxes, which gradually increases to roughly $2,200 by 2019. The yearly savings would no doubt be meaningful for the restaurant, and could be committed toward better ingredients, additional menu items, or small investments in the restaurant.

Figure 18. Caribou General Store

TAX BURDEN	CURRENT	2017	2018	2019
Income Tax Burden	$23,883	$23,582.50	$22,682.50	$21,500
Property Tax Burden	$2,742.90	$2,939.70	$2,939.70	$2,939.70
Total Tax Burden	$26,625.90	$26,522.20	$25, 622.20	$24,439.70

Note: These models do not attempt to predict changes to consumer behavior, and thus assume purchasing habits will not be impacted by changes to the sales tax. They also assume that income and property tax evaluations will stay consistent across time, for ease of comparison.

BUDGET
EVALUATION

SPENDING

The 2014 gubernatorial election sent a clear message to leaders across Maine: *Maine can not afford its current government.*

This budget, despite the challenges inherent in the Maine Legislature, is one of the best chances we will ever have to institute spending discipline in Augusta. Now is the time to push hard for smaller budgets and lower spending, to continue putting pressure on reformers to pursue solutions to the intractable programs, departments and priorities that have poisoned Maine budgets for decades.

When opportunities to cut spending are lost, not only is money wasted on frivolous spending priorities, but future budgets are built upon that bloated spending. The 2010-2011 budget was, at the time, the first budget that had proposed spending less than its predecessor in 35 years. Every opportunity to limit the growth of spending that is lost only increases future spending exponentially.

In this budget proposal, Governor LePage proposes raising government spending by **$166,019,357**, or roughly **2.59%.**

Only two departments, the Department of Education and the Maine Community College System, saw decreases in their budgets against the prior biennium. Every other department saw spending increases, including several that saw relatively explosive growth, as demonstrated in figure 19.

Figure 19. Maine Spending Growth

DEPARTMENT / AGENCY	2016 – 2017	2014 – 2015	SPENDING GROWTH	% GROWTH
Department of Education	**$2,317,174,043**	$2,333,069,073	($15,895,030)	-0.68%
Department of Health And Human Services	**$2,287,023,179**	$2,246,018,081	$41,005,098	1.83%
Board of Trustees of the University of Maine System	**$404,814,984**	$390,579,446	$14,235,538	3.64%
Department of Corrections	**$331,914,396**	$302,540,696	$29,373,700	9.71%
Department of Administrative and Financial Services	**$258,820,128**	$248,819,423	$10,000,705	4.02%
(Office of) Treasurer of State	**$169,861,801**	$160,226,608	$9,635,193	6.01%
Judicial Department	**$140,577,050**	$126,211,987	$14,365,063	11.38%
Maine Community College System	**$110,917,072**	$111,417,072	($500,000)	-0.45%
Department of Public Safety	**$88,430,218**	$77,742,055	$10,688,163	13.75%
Department of Inland Fisheries and Wildlife	**$51,692,571**	$47,320,053	$4,372,518	9.24%
Legislature	**$50,849,961**	$49,969,744	$880,217	1.76%
Department of the Attorney General	**$41,328,441**	$30,245,564	$11,082,877	36.64%
Finance Authority of Maine	**$31,384,788**	$21,362,788	$10,022,000	46.91%
Maine Commission on Indigent Legal Services	**$29,425,060**	$27,976,399	$1,448,661	5.18%

DEPARTMENT / AGENCY	2016 – 2017	2014 – 2015	SPENDING GROWTH	% GROWTH
Department of Economic and Community Development	**$24,688,595**	$22,268,571	$2,420,024	10.87%
Department of Labor	**$22,878,257**	$18,831,376	$4,046,881	21.49%
Department of Marine Resources	**$20,485,942**	$18,542,616	$1,943,326	10.48%
Department of Environmental Protection	**$15,315,454**	$13,401,741	$1,913,713	14.28%

When compared to other budgets, even many proposed by conservative governors across the country, a 2.59% increase is not outrageous or extravagant. However, it does represent a lost opportunity, if it becomes law as it is currently constituted.

A great deal of the blame for these spending increases no doubt lay at the feet of the Maine Legislature. In his first term, Governor LePage made a number of spending reduction proposals which were ultimately blocked by members of both parties in Augusta, and would have, were they implemented, helped to bring spending under control. The fact that many of them have been politically untenable in the past no doubt led to the governor choosing to "pick his battles" as he seeks to undertake major change to the way Maine collects tax. The political calculus, undoubtedly, was that spending cuts that were too deep may sabotage a real chance at budget reform.

Unfortunately, the levels of spending in this budget end up partly sabotaging the potential to cut income tax rates deeper, or preserve the current rate of sales tax, rather than increase it. A budget with flatline spending, which would have been more than appropriate given the expressed will of the voter in 2014, would provide $166 million that could be committed to the ultimate goal of eliminating the personal income tax. Cutting spending beyond that amount would provide even more.

With all of that said, it is important to remember that the LePage budget proposal is not a revenue neutral change to the Maine tax code. It will result in significant reductions of tax collection, which will have a downward impact on spending.

PERSONAL INCOME TAX

The governor's proposed cuts to the income tax are much needed, they are substantial, and represent the lowest level the income tax will have ever been at since its institution.

Such a large reduction in income taxes has long been a goal of many in the state, and according to our evaluation, it will result in savings by most Mainers of all income levels. Indeed, at a time when wages are stagnant, the additional income going directly to the pockets of Maine people will likely represent the largest raise they have seen in some time.

However, there are some aspects of the income tax change that The Maine Heritage Policy Center is hesitant about. For example, the proposed alterations to the income tax seek to fully eliminate all itemized deductions for Maine taxpayers, including a number of important

incentives, such as mortgage interest deductions, which are intended to encourage home ownership, as well as charitable giving.

The problem isn't those special tax breaks going away. By and large, most of them are the result of intense lobbying from a specific interest group, who persuaded legislators to use the tax code to encourage growth in their chosen sector of the economy. It should be a policy goal to eliminate all such special favors and benefits from the tax code, to make it simpler and fairer.

The ultimate problem, however, is finding a way to eliminate them without causing undue strain. To do that, rates need to be lowered enough on income tax – such as they would be under Governor LePage's ultimate goal of completely eliminating it – to drastically reduce or eliminate their importance. At that point, deductions and special provisions would be irrelevant, as there would be no income tax to weigh them against.

In the meantime, the presence of these tax breaks has helped to manipulate the behavior of taxpayers, and has encouraged some important economic activity. Their elimination with the top income tax rate still being as high as 5.75% (or 6.5% depending on how much you earn) means that these deductions would still theoretically be meaningful, and would still manipulate behavior, and their absence would marginally depress the areas they originally sought to address.

Incentives for homeowners are an excellent example of this. Being a poor state, and with housing stock among the oldest in the country, Maine has a vested interest in promoting home ownership, and anything the state can do to make that easier makes logical sense. Doing away with such incentives without lowering rates enough to make those incentives irrelevant could potentially be damaging to some industries.

The answer, however, is not to preserve those special breaks, but instead to eliminate them while simultaneously lowering income tax rates farther, so that the incentives are less relevant and no longer impactful.

The other area of concern we have is with the addition of another income tax bracket, and the institution of the so-called *bubble bracket*, which is a bracket below the top bracket (5.75%) that is actually higher (6.5%) than that top bracket.

The answer, however, is not to preserve those special breaks, but instead to eliminate them while simultaneously lowering income tax rates farther, so that the incentives are less relevant and no longer impactful.

The basic theory behind the bubble bracket is to make use of it as a personal exemption phase-out (PEP) mechanism. In other words, it is an attempt to recoup what was exempt income from those who earn above a certain threshold. Once the bubble pays back that exemption, the bracket returns to 5.75%.

Many states have a PEP mechanism built into their state tax code, however Maine would be the only state in the union to expressly build that mechanism into the tax code. It also has the undesirable effect of adding more brackets, making the tax code more complex, making it more progressive, and dampening economic activity among those who are in the bracket, which under this proposal could include a number of middle class families. It would be better long-term policy to see a flatter income tax.

CORPORATE INCOME TAX

Easily the strongest part of the proposal is the suggested changes to the corporate income tax structure. For years, members of both political parties have agreed that Maine's corporate income tax environment was punitive and counterproductive, and was actively harming the ability of businesses to start, grow or relocate in Maine. Yet nothing was done about it.

Here, the proposal gets it entirely right. Corporate brackets are simplified into a virtual flat tax, and dramatically lowered. This simplifies the system, and lightens the burden on corporations in Maine. As demonstrated in the corporate tax examples earlier in this report, businesses can expect significant savings, and can then recommit those savings toward capital investments, acquisitions, additional production, higher purchasing power, or the addition of more employees.

Each business that has those additional resources has an opportunity to contribute more to the economic vitality of the state of Maine, which has implications for GDP, wages, and taxation.

SALES TAX

The governor is correct to identify the shifting economic base enjoyed by Maine. Our state has moved from a production economy to a service based economy, and the tax code has not kept up with that change. Today, an immeasurable number of service related items are not subject to being taxed, even though many of them would seem like common sense. This is the result of decades of tinkering with the tax code, without any major changes to what is taxed.

The Maine Heritage Policy Center fully supports the extension of the sales tax to additional areas, as proposed by the LePage administration. These are common sense changes, that will net the state a great deal of revenue, which will help offset major reductions in the income tax.

The reason behind such a change is simple, and has been repeated frequently since the governor proposed his budget. Extending the sales tax collects a heavy amount of money from tourists and visitors, while being ultimately more broad and fair, and allows the state to tax productive activity and income a great deal less.

The biggest issue with the sales tax portion of the budget is the rate going up. While it is true that even with the higher rate, Maine would not be an outlier and would be firmly in the middle of states, as it related to sales tax rates, the hike still raises important concerns, particularly for border territories in Oxford and York counties, who share a border with New Hampshire.

The Maine Heritage Policy Center has done extensive research on what we call the *Retail Desert*, which is an area of Maine that, due to close proximity to New Hampshire's lack of sales tax, no longer boast any major retail activity. The citizens on the Maine side of the border who are close enough will travel to New Hampshire to avoid Maine's sales tax, and with the proposal putting it a point higher than it is today, there is little question that it will make that problem worse.

ESTATE TAX

The estate tax is a something that very few states still make use of, and its impact on Maine is relatively small, and extremely unpredictable. The elimination of Maine's estate tax would not cause a significant hole in the budget and may actually help to stabilize revenues.

The estate tax being eliminated is a welcome move toward allowing Maine people to keep what they have spent a lifetime earning, and pass it on to others without being taxed again. Many Maine residents have either left fully, or have become residents of another state for *six months and a day* to avoid the high income and estate taxes in Maine. With their abandonment of the state, a great deal is lost in the way of economic activity, charitable giving, and involvement in Maine communities.

As with so much of this budget proposal, the estate tax being eliminated will not by itself make a dramatic change to the state. It will, however, help make the state more attractive for retirees, particularly those with great wealth, and can contribute significantly to helping keep those people here.

MUNICIPAL REVENUE SHARING

The Maine Heritage Policy Center *strongly* believes that the governor's proposal to eliminate revenue sharing is good public policy. Since 1972, property taxes have exploded, and municipalities have failed to keep their spending in line. The original purpose of revenue sharing was to hopefully prevent that from happening, yet the guaranteed money each year has caused municipalities to spent more than they otherwise would while not putting any downward pressure on property taxes.

Cities and towns in Maine will find a way to spend whatever money they have available to spend. Giving them more with no incentives or structural policies that would force them to reimagine municipal government only means the city or town will find a way to spend that money.

The main pushback we have heard from municipalities is that they have "already cut all the fat, and we are down to just bone." This is simply not true, as an examination of any town budget will show.

In reality, towns have a great number of options to save money, including working with their neighbors to create more regional governance and delivery of services, to fundamentally alter how localities view their government in the first place.

Towns existed and prospered before revenue sharing, and they will after it is eliminated. But the governor's proposal helps drive that change by forcing towns to confront their spending habits. In the best tradition of local control, if a town feels its spending is appropriate, it has the power to levy taxes on itself to pay for that spending, which is as it always should have been.

THE MAINE HERITAGE POLICY CENTER
RECOMMENDATIONS

The governor's proposal is a phenomenal starting place for discussions of much needed wholesale reform to the tax code. It has done a number of important things, not the least of which is seek to turn rhetorical support for tax reform and tax reduction, into a substantive proposal.

That proposal does have a meaningful impact on Maine taxpayers. There is no doubt that for the vast majority of citizens, the LePage plan will lead to lower income taxes, which will outweigh potential increases in sales tax and property taxes.

It lowers the overall tax burden on Maine citizens by hundreds of millions of dollars, and begins a formal transition to a system of consumption taxation, and ultimate tax fairness.

Most people who do not see savings can at least be assured that they will more or less break even, and will not be worse off for reform.

In addition to additional money in the pockets of Mainers, it will also provide a major economic incentive for growth in Maine's business community. This has been a needed change for decades, and the lowered cost of doing business and higher access to business capital with which to invest, businesses will be able to create jobs and grow.

While the budget is an excellent starting point, The Maine Heritage Policy Center has a specific set of **four recommendations** for lawmakers, to ensure that this budget is not simply major reform, but is in fact truly transformative.

FLAT LINE SPENDING

The amount of money spent in this budget should not rise above the level budgeted in the previous biennium. It is unacceptable that nearly each department proposed to spend more money – in some cases a great deal more – than they had in previous budgets. Lawmakers should set a very specific spending goal of cutting at least $166 million off of spending projections, to put them in line with the previous budget. This common sense idea will save a great deal of money that can be applied to additional rate cuts.

EXTEND SALES TAX MORE

In addition to flat-lining spending, the sales tax extensions should go further in scope than they are currently proposed to. The goal of any major tax reform should be to broaden the base, keeping rates as low as can be tolerated. While the administration's goal of keeping certain items exempt from sales taxation is laudable, ultimately it amounts to selectively targeting certain areas, and prioritizing them in favor of others. There is room for additional extensions, which would provide hundreds of millions of dollars in additional funding, which again could be applied to rate-cutting.

FLATTEN RATES AND CUT RATES DEEPER

With additional monies available from lower spending and additional sales tax extensions, there would be room to cut the income tax more significantly than was proposed in the LePage budget. It is our goal to get this number as low as possible, so that not only will Maine get closer to its goal of eliminating the income tax than the current proposal, but that the pain from eliminating itemized deductions will be lessened. At the same time, it should be a goal to flatten the code, rather than add additional progressivity, to make the entire system simpler for all Mainers.

KEEP SALES TAX RATE AT 5.5%

The general sales and use tax going up to 6.5% represents a major tax shift, as well as a psychological barrier to retail activity in Maine, particularly on border territories. It also provides a convenient mechanism for future lawmakers to pursue, raising the number ever higher to pay for additional spending priorities in Augusta. It is of the utmost importance that the rate remains where it is, to help insulate the areas of Maine that already experience the retail desert phenomenon, as well as hold the line against the ever-creeping growth in tax collections.

CONCLUSION

Advocates of limited government across Maine have been seeking to make transformative change to Maine's tax code for years, and we finally have an opportunity to do just that. In fact it may be the best opportunity that we will ever have, as political realities change from month to month, and year to year, and the public appetite for right-sizing government may change over time.

The Maine Heritage Policy Center wholeheartedly endorses the governor's goal of eliminating the income tax, and providing an environment for economic growth that is unparalleled in New England. To fully realize that, we need to ensure that this budget is *the* budget where we finally make the changes that have been so desperately needed for Maine.

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