

Path to Prosperity

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Which Tax Plan is Best for Maine?

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There is finally some good news for Maine taxpayers. The tax discussion on both sides of the political aisle in Augusta is not whether to have tax relief, but how much tax relief Mainers should have. However, two proposed tax plans—one by the Republicans and the other by the Democrats—approach individual income tax relief from very different angles.[1] As a result of these differences, the two plans will have significantly different effects on Maine’s economy. An analysis of both plans shows that one plan in particular—the Republican plan—will do far more to create tax relief and boost Maine’s economy.

The size of the tax relief matters. As shown in Table 1, the Republican plan saves Maine taxpayers \$158.5 million in 2013 while the Democratic plan only saves Maine taxpayers \$28.2 million—barely a fifth of the Republican plan. In fact, the Republican plan creates an average individual tax cut of \$228, while the average individual tax cut under the Democratic plan is just \$41. In light of the tepid recovery from the “Great Recession,” Maine’s economy and private sector need as much tax relief as possible. The Republican plan is clearly the more beneficial approach.

The type of tax relief also matters. The Republican plan’s main features for 2013 include:

- **Boosting the personal exemption from \$2,850 to the federal level of \$3,900:** This eliminates the \$1,000 or more taxable income penalty on every member of a Maine family.[2]
- **Eliminating the 2 percent tax bracket, changing the 4.5 and 7 percent tax brackets to 6.5 percent and lowering the top 8.5 percent tax bracket to 7.95 percent:** This dramatically increases the amount of income anyone can earn before paying any taxes, and simplifies the Maine tax code.
- **Eliminating the individual Alternative Minimum Tax:** This abolishes the punitive tax on individuals with high amounts of itemized deductions, such as medical expenses, charitable contributions, mortgage interest payments and student loan payments.

Table 1
Who Benefits from Individual Income Tax Cut Proposals?
Tax Year 2013
Millions of Dollars

Income	The Republican Plan				The Democratic Plan			
	Current Taxes Paid	Proposed Taxes Paid	Percent Change	Average Tax Cut (Dollars)	Current Taxes Paid	Proposed Taxes Paid	Percent Change	Average Tax Cut (Dollars)
Less than \$14,673	\$1.6	\$0.3	-83.9%	\$10	\$1.6	(\$1.5)	-191.7%	\$22
\$14,674 to \$21,058	\$6.1	\$3.5	-42.7%	\$37	\$6.1	\$3.0	-51.3%	\$45
\$21,059 to \$28,139	\$15.6	\$12.3	-21.4%	\$48	\$15.6	\$12.3	-21.2%	\$47
\$28,140 to \$36,521	\$35.9	\$28.7	-20.0%	\$103	\$35.9	\$33.0	-7.9%	\$41
\$36,522 to \$48,050	\$65.6	\$55.1	-16.0%	\$151	\$65.6	\$63.4	-3.4%	\$32
\$48,051 to \$63,648	\$106.5	\$91.7	-13.9%	\$213	\$106.5	\$104.3	-2.1%	\$32
\$63,649 to \$84,797	\$161.8	\$141.1	-12.8%	\$297	\$161.8	\$158.6	-2.0%	\$46
\$84,797 to \$119,783	\$277.0	\$246.5	-11.0%	\$437	\$277.0	\$272.9	-1.5%	\$59
Over \$119,784	\$826.9	\$759.2	-8.2%	\$971	\$826.9	\$822.7	-0.5%	\$60
Totals	\$1,496.9	\$1,338.4	-10.6%	\$228	\$1,496.9	\$1,468.7	-1.9%	\$41

Source: Maine Revenue Service and The Maine Heritage Policy Center.

The Democratic plan’s main features for 2013 include:

- **Expanding all tax brackets by 5 percent:** This makes Maine’s income tax slightly less progressive.
- **Tax relief targeted mainly to low income families with children:** Increasing the Earned Income Tax Credit (EITC) to 10 percent of the federal credit, up from 5 percent, and making the credit refundable if the credit is more than a taxpayer’s tax bill, at which point the taxpayer will receive a check for the difference.

As shown in Table 1, both plans are very generous to lower income Mainers. The

Republican plan to increase the personal exemption and eliminate the lowest tax bracket helps low-income Mainers while the Democratic plan to expand the EITC also helps low-income Mainers. However, the Democratic plan would, for the first time, make the EITC refundable, resulting in the Maine Revenue Services (MRS) performing bank-like functions by issuing EITC checks.[3] This is a radical departure for MRS as tax collector to becoming a check dispenser.

The Democratic plan also does little to help Maine taxpayers overall. According to MRS estimates, only 74,500 residents would receive an EITC refund in 2012. That number drops to just 67,000 in 2013.[4]

The extent of tax relief under the Democratic plan essentially ends for those Mainers earning more than \$50,000 per year on a percentage basis. For taxpayers earning more than \$119,784, many of whom are small business owners, the Republican plan cuts tax collections by 8.2 percent while the Democratic plan would drop tax collections by only 0.5 percent. This is a significant difference with regard to economic growth, because many of Maine's job creating small businesses fall into this income category. As a result, the Republican plan would provide a significantly larger boost to Maine's small businesses and job-creators than the Democratic plan.

Conclusion

Put simply, the Republican plan is better for Maine taxpayers and the Maine economy. First, the Republican tax cut saves Maine taxpayers more than 5 times what the Democratic plan saves. Second, a significant portion of the Republican plan's tax relief goes to Maine's small business community, which will help jump-start the economy and create jobs. The Democratic plan, in contrast, provides very little relief to small businesses.

Additionally, the Democratic plan includes a worrisome provision that would, for the first time, make the Earned Income Tax Credit refundable in the case where the credit exceeds a taxpayer's tax bill. This would transform the Maine Revenue Service from a tax collector to a check dispenser.

For the sake of family budgets and job growth, the Maine Legislature would be wise to enact the Republican Tax Plan. The Democratic plan does not do nearly enough.

Notes and Sources:

- [1] This study only examines changes that mostly impact individuals in the individual income tax code. It does not include changes that only impact businesses, such as section 179 expensing, or other taxes, such as the sales tax.
- [2] Certain aspects of the tax code are indexed for inflation, such as the federal personal exemption, which were based on 2010 levels and adjusted into 2013 levels assuming a 2.5 percent inflation rate.
- [3] The federal Earned Income Tax Credit was, among other things, originally created to increase the incentive to work. However, the EITC has a phase-in portion (which encourages work) and a phase-out portion (which discourages work). Research suggests that, in the aggregate, the disincentive to work outweighs the incentive to work. For more information see: Hall, Arthur P. and Moody, J. Scott, "Growth of the Earned Income Tax Credit," The Tax Foundation, Special Report No. 53, September 1, 1995. <http://www.taxfoundation.org/news/show/722.html>
- [4] E-mail correspondence with Maine Revenue Services.

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