

## **The Maine Heritage Policy Center Testimony to Support LD 1292 “An Act To Lower Maine's Individual Income Tax”**

Senator Chipman, Representative Tipping and distinguished members of the Committee on Taxation, my name is Adam Crepeau and I am a policy analyst at The Maine Heritage Policy Center. Thank you for the opportunity to testify in support of LD 1292, “An Act to Lower Maine’s Individual Income Tax.”

There has been plenty of legislation proposed this session that would increase taxes on Maine citizens. Some examples include the proposed tax increases on heating fuel, carbon, gasoline, diesel fuel, tobacco, alcohol and much more. It is refreshing to see a change in pace to responsibly reduce the individual income tax. The Maine Heritage Policy Center supports LD 1292 because it would benefit all Mainers.

This bill proposes to give a reasonable and incremental decrease to all state individual income tax brackets over three years, with the largest cuts coming to earners in the lowest tax bracket. Specifically, LD 1292 decreases the lowest rate from 5.8 percent to 5 percent, the middle rate from 6.75 percent to 6 percent and the top rate from 7.15 percent to 7 percent by 2022.<sup>1</sup> Therefore, this bill gives tax relief to Maine citizens while addressing the concerns many groups had with the elimination of the individual income tax, which was presented to this committee earlier this legislative session.

The State of Maine is fortunate to have more than a \$120 million surplus from the 2018-19 budget that will be carried over into the 2020-21 biennium.<sup>2</sup> In addition, the Revenue Forecasting Committee projected the state would bring in over \$7.9 billion in revenue (with the governor’s proposed adjustments).<sup>3</sup> The last state budget was approximately \$7.2 billion. While a moderate increase in spending might be justifiable depending on policy priorities and the rate of inflation, there is no reason the state cannot give relief to taxpayers.

A group concerned about reducing the individual income tax wrote, “eliminating a state's progressive income tax is the surest way to create an upside-down tax system one where those with the least income pay the highest share of their income in taxes” in their testimony to oppose phasing-out the individual income tax entirely.<sup>4</sup> This bill addresses this concern by providing relief to all income levels, but reducing the bottom two rates the most in an effort to target low and middle income earners. In fact, low income Mainers would get a 14 percent reduction, middle income earners would see 11 percent, and the highest earners would realize two percent. Approximately 500,000 filers would be affected by the change in the

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<sup>1</sup> <http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=HP0935&item=1&snum=129>

<sup>2</sup> <https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf>

<sup>3</sup> Ibid.

<sup>4</sup> <http://www.mainelegislature.org/legis/bills/getTestimonyDoc.asp?id=98174>

lowest and middle income tax brackets.<sup>5</sup> In other words, this bill does not give a disproportionate tax break to the wealthy, benefiting those that need it the most.

Another group opposed to the complete elimination of the individual income tax wrote, “lowering Maine's income tax...will only serve to further starve our state of the resources we need” in their testimony on the same bill.<sup>6</sup> While we understand these concerns, the state is projected to bring in an additional \$550 million in the 2020-21 biennium.<sup>7</sup> In addition, Governor Janet Mills stated in her State of the Budget Address that the Revenue Forecasting Committee has projected revenue could exceed \$8.3 billion beyond the 2020-21 biennium.<sup>8</sup>

There are plenty of resources to adequately fund state government while giving small, incremental tax cuts based on these projections. The time is now, when it is economically possible, to lower the tax burden on Mainers.

Maine's top marginal individual income tax rate is one of the highest in the nation, at 7.15 percent. According to the Tax Foundation, Maine has the 11th highest top marginal individual income tax rate in the nation (including Washington D.C.).<sup>9</sup> By lowering the individual income tax burden, particularly on low and middle income Mainers, the state of Maine would become more competitive with other states.

Because this bill is a thoughtful approach to lowering the individual income tax on Mainers, The Maine Heritage Policy Center strongly urges the committee to vote, “Ought to Pass” on LD 1292. Thank you.

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<sup>5</sup> <https://www.irs.gov/pub/irs-soi/16in20me.xls>

<sup>6</sup> <http://www.mainelegislature.org/legis/bills/getTestimonyDoc.asp?id=98175>

<sup>7</sup> <https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf>;

<sup>8</sup> <https://www.maine.gov/governor/mills/news/governor-janet-mills-state-budget-address-2019-02-11>;  
<http://legislature.maine.gov/doc/2539>

<sup>9</sup> <https://taxfoundation.org/2019-state-individual-income-tax-rates-brackets/>