

The Maine Heritage Policy Center Testimony to Oppose LD 1496

“An Act To Protect the Maine Budget Stabilization Fund”

Senator Breen, Representative Gattine and distinguished members of the Committee on Appropriations and Financial Affairs, 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 opposition to LD 1496, “An Act To Protect the Maine Budget Stabilization Fund.”

This bill would change the funding source to cover any federal disallowance in federal financial participation for Medicaid services and disproportionate share hospital payments related to the Riverview Psychiatric Center. Currently, these funds are slated to be transferred from the Budget Stabilization Fund, which was established to protect the state from economic downturns. LD 1496 would instead transfer these funds from the Tax Relief Fund, which was created to reduce the individual income tax burden for Maine residents to four percent for all individual income tax brackets.¹

While The Maine Heritage Policy Center is not opposed to protecting the Budget Stabilization Fund, it would be misguided to redirect money from the Tax Relief Fund to pay the federal government. Instead of diverting funds from an account established to reduce the income tax burden on Mainers, lawmakers should find a way to cover the federal disallowance through the General Fund and the increase in revenue over the next biennium. According to the May 2019 Revenue Forecast, the state of Maine is anticipated to receive over \$345 million in additional revenue in the 2020-21 biennium without the governor’s proposed adjustments.² This increase is more than enough to cover the cost of the federal disallowance.

Instead of budgeting for this expense, the legislature and the governor have proposed bill after bill that would utilize almost all existing revenue. It is becoming clear that the priority is to spend every available penny and to disregard the purpose of programs like the Tax Relief Fund. The top marginal individual income tax rate in Maine is the 11th highest in the entire country.³ In addition, the state of Maine is forced to compete with New Hampshire, which does not levy an individual income tax on its citizens.

¹ <http://legislature.maine.gov/statutes/5/title5sec1518-A.html>

² <http://legislature.maine.gov/ofpr/revenue-forecasting-committee/9302>

³ <https://taxfoundation.org/2019-state-individual-income-tax-rates-brackets/>

We the people of Maine...

THE MAINE HERITAGE POLICY CENTER

To become more competitive with other states, lawmakers need to resist the urge to spend money in the Tax Relief Fund to allow for an eventual income tax reduction. It is no secret that lowering the individual income tax would allow Mainers to keep more of their hard-earned money to reinvest in the state economy. Since these funds are currently collected by state government and do not always make it back into the economy, they are not guaranteed to create tangible benefits for the people of Maine.

For those reasons, The Maine Heritage Policy Center urges the committee to vote, “Ought Not to Pass” on LD 1496. Thank you.