

# Tax Reform

in the 123<sup>rd</sup> Legislature

# Quick Summary

January – June, 2007:

- Unprecedented Committee Process
- Comprehensive Product
- Passed House, Failed Senate

October, 2007 – April, 2008

- Outreach to Business Community
- Progress Made; But No Consensus to Act
- Better Positioned than Ever Before; Optimistic We'll Act in early 2009

# 1. The Process

# How it's always been done

- The Legislature tackles Tax Reform every Session (usually at the end when everyone is tired and angry).
- Committee has inadequate time.
- Committee discussions are shaped by partisan politics.
- Committee vote is inevitably partisan.
- Broader Legislature not engaged or well informed.
- **BOTTOM LINE:** No Tax Reform package has ever passed either chamber.

# In 2007, we chose a different path

Tax Committee would:

- dive into Tax Reform at the start of Session
- agree upfront on “Principles” for tax reform
- agree upfront on ground rules for our own behavior (to build trust and reduce partisanship)
- put in the time needed to explore many options
- actively utilize MRS’s expertise and tax model
- actively engage the broader Legislature

# First, we agreed on these Committee Principles

**Tax reform should reduce the overall tax burden on Maine residents.**

**Tax reform should be revenue neutral.**

**The benefits of tax reform should be shared by all Maine residents in all regions of the state.**

**Tax reform should seek to simplify the tax structure.**

# **Committee Principles (cont.)**

**Tax reform should be pursued using a clear, transparent and participatory process.**

**Tax reform should provide an overall tax structure that is equal to or strives to be more progressive than the current system.**

**Tax reform should strengthen the economic future of the state.**

**Tax reform should be bold and timely.**

# **Next, we did some homework**

**Presentations from experts (of all political stripes)**

**Educated ourselves about current tax system and ideas from away**

**“Open Mike” sessions to learn from lobbyists, legislators, and members of the public**

**Reviewed other tax reform proposals (notably from submitted bills and committee input)**

# Summary of What we Learned

- 1. There's a clear need to lower Maine's income tax rate. Maine's high rate discourages economic development and Maine residency.*
- 2. Taxing "consumption" is fairer and smarter than taxing incomes.*
- 3. Maine has one of the narrowest sales tax bases in the country, with many exemptions (particularly for consumer services).*
- 4. Though property tax burden is very high, state efforts to reduce this burden has met with mixed results. It may be time to focus state intervention more on income and sales taxes.*
- 5. Tax Reform done right is NOT simply about shifting taxes. It can reduce burden (by exporting more taxes), make revenues more stable, and promote economic growth.*

## 2. The Product

# Summary of Tax Package

1. Cut income taxes significantly
2. Provide targeted property tax relief
3. Pay for it by expanding  
“consumption taxes,” notably those  
that export tax burden

# Cutting Income Taxes

**Create 6% "flat rate" (down from 8.5%)**

**Remove exemptions and deductions**

**Retain progressively and itemized deductions  
through a new resident tax credit**

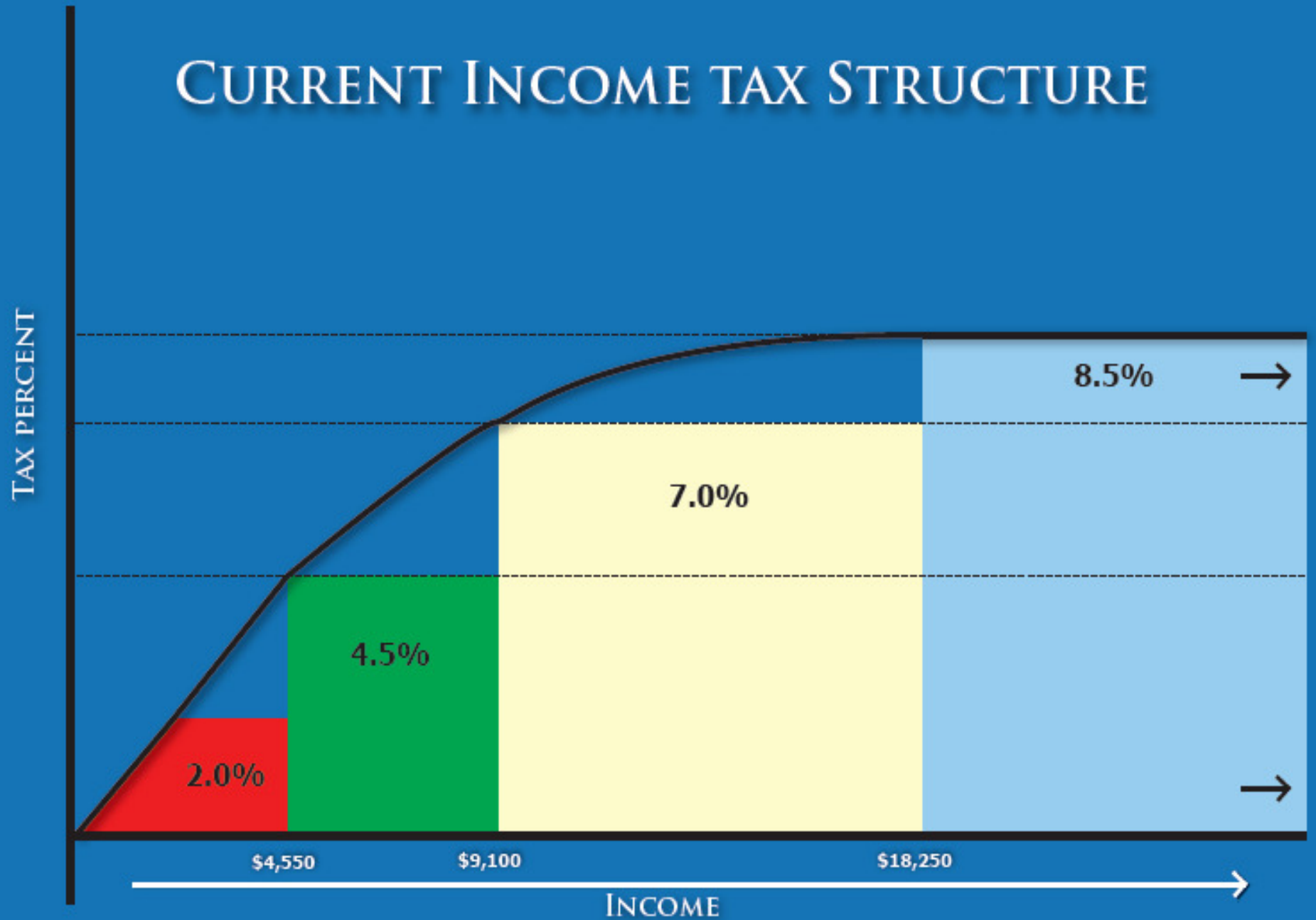
**Repeal "Alternative Minimum Tax"**

## **IMPACTS**

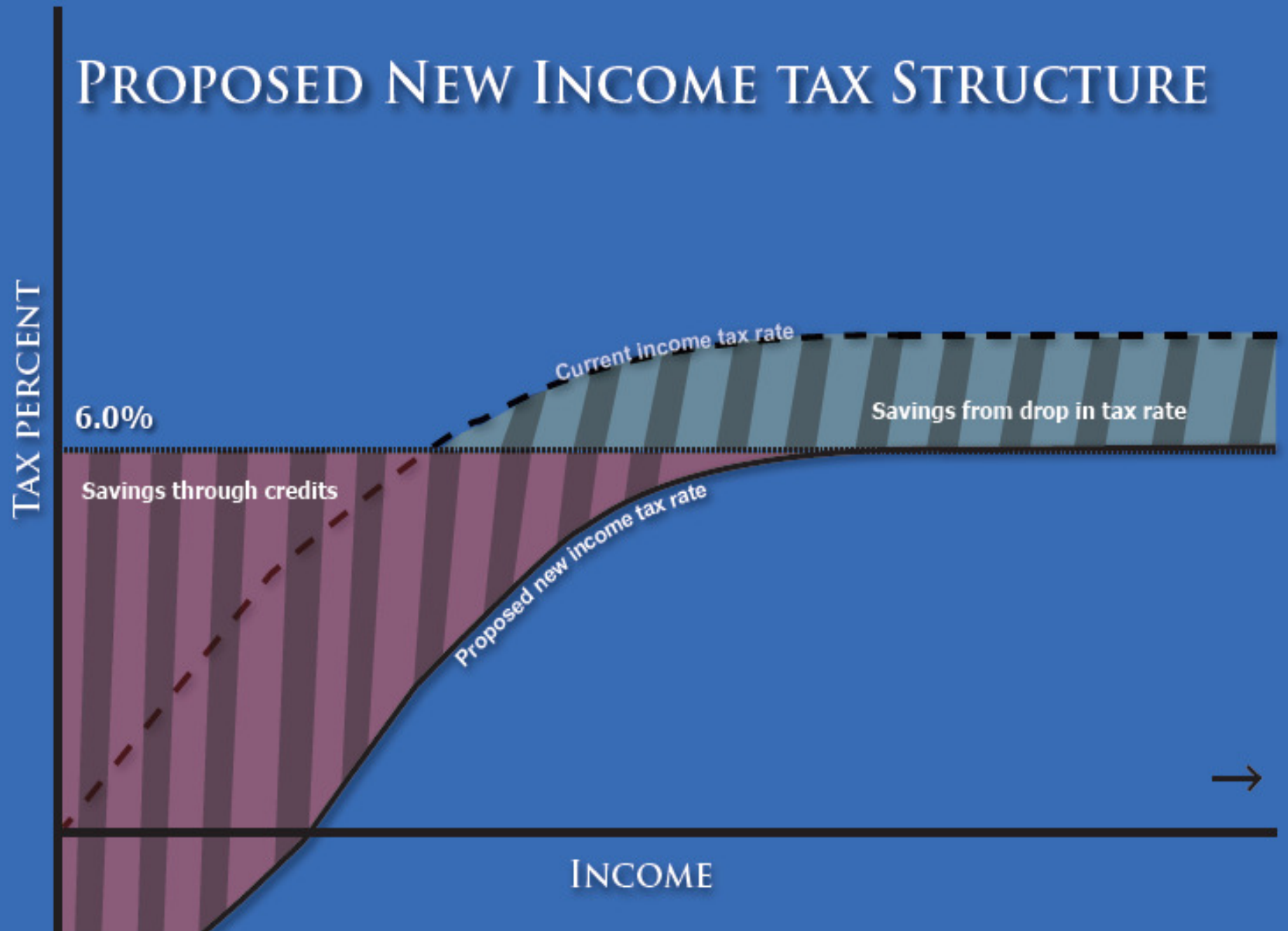
**Maine's income tax goes from 7th highest to 16th  
lowest**

**98% of Maine filers see an income tax decrease  
(averaging \$400)**

# CURRENT INCOME TAX STRUCTURE



# PROPOSED NEW INCOME TAX STRUCTURE



# Provide Property Tax Relief

**Increase Homestead**

**Expand Circuit Breaker program (and re-name it)**

**Reactivate state's property tax deferral plan (ended in 1994)**

## **IMPACTS**

**New property tax relief**

**New options for tax deferral**

# Expand Consumption Taxes

**Remove some select exemptions**

**Impose sales tax on some consumer services**

**Increase tax on prepared foods and lodging**

**Increase excise tax on beer and wine**

**Increase real estate transfer tax (currently less than 1/3 of rate in NH)**

## **IMPACTS**

**Raises funds to pay for tax cuts**

**Only 54 % paid by Maine residents**

# **Proposed New System *would have:***

**Reduced the overall burden on Maine residents by over \$140 million (4.7%)**

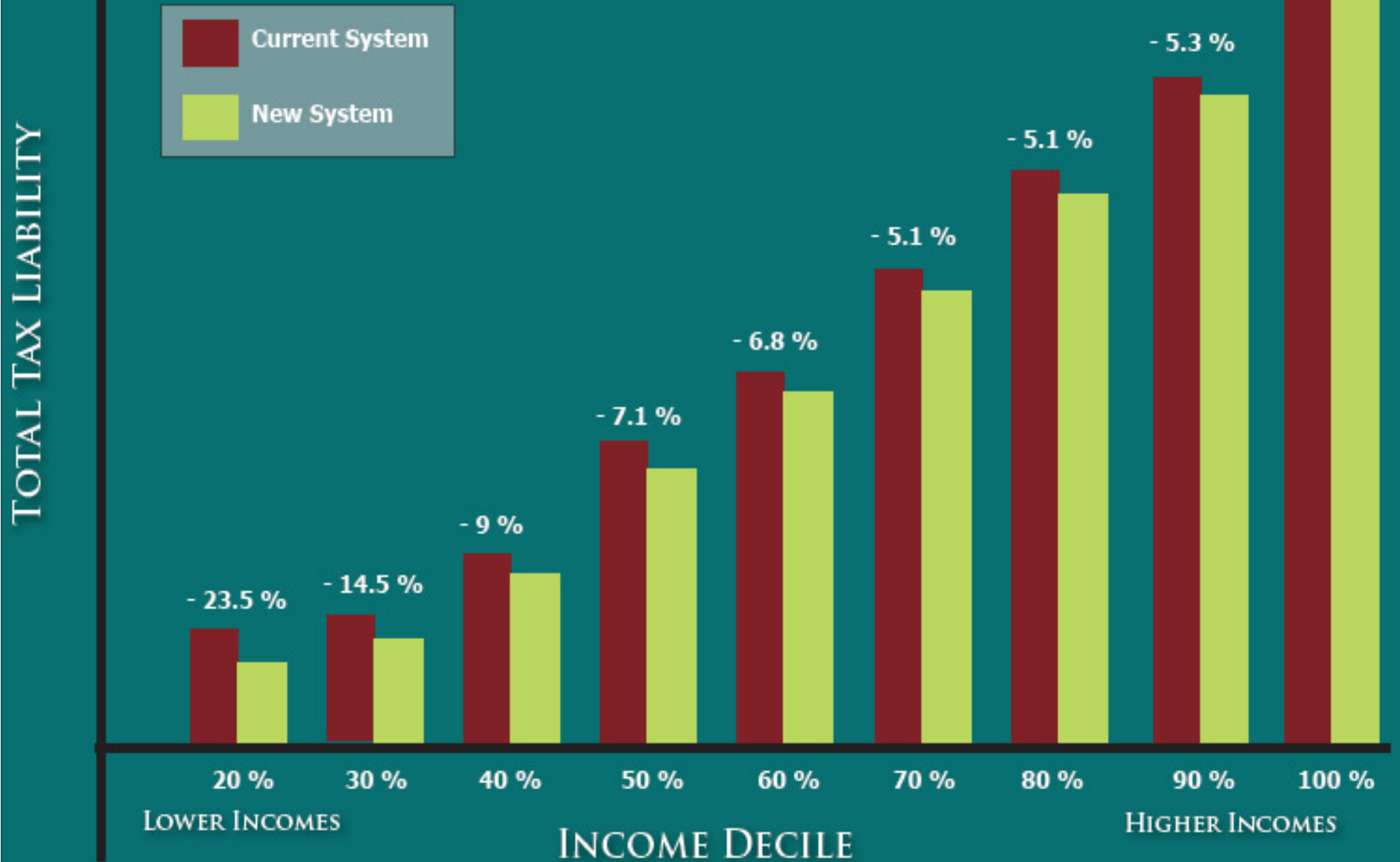
**Reduced the taxes paid by 91% of Maine residents (by an average of \$350)**

**Been more stable and predictable than our current system**

**Likely resulted in greater revenue growth than our current system**

**Been as progressive as current system**

# PROGRESSIVE REDUCTION IN TOTAL TAX LIABILITY



# What about spending cuts?

1. We weren't able to do it.

*Spending is NOT purview of Tax Committee;  
fiscal note would have killed bill.*

2. We agreed that tax reform had value without doing it.  
("Diet & Exercise")

*Committee (and legislative leadership) agreed that tax  
package would be "revenue neutral."*

3. Nonetheless, we proposed a package that would curb  
spending in future.

*Over 20% of revenue growth was earmarked for further  
tax relief in future*

# 3. What Happened

*And Why*

1. No Champions among potential winners
2. INTENSE lobbying: potential losers (real or perceived) were organized & effective
3. Inaccurate information (press, ads, emails)
4. “Tax Shift” criticism hard to counter
5. Partisan politics reared its ugly head
6. No gubernatorial support

**Where do we go  
from here?**

- We aren't dwelling on what didn't pass.
- Instead, we're reaching out to public and business community to explain the value of this kind of tax reform and to seek common ground on some plan to move forward.
- We're optimistic we'll enact a tax package of this kind in 2009 (because more and more people are realizing we can't afford not to).