



# Maine's State & Local Tax Burden: Recent Trends and Tax Reform

Michael J. Allen, Ph.D.  
Economic Research Division  
Maine Revenue Services

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## Outline of Presentation

- Current Law
  - State & Local System
  - Tax Burden 1996-2010
- LD 1495: An Act to Implement Tax Relief and Tax Reform
  - History and Motivation for Tax Reform
  - Summary of Changes
  - Fiscal and Distributional Analysis

# Maine's State & Local Tax System

State and Local Tax Collections for CY08 Liability by Type of Tax and Taxpayer Category  
(Millions of Dollars)

Tax Category	Collections		Percentage by Taxpayer Category			
	Total	Percentage Distribution	Individuals Resident	Individuals Nonresident	Businesses	Total
<b>Taxes on Income</b>						
Individual Income Tax	\$1,363.4	26.8%	93.1%	6.9%	0.0%	100.0%
Corporate Income Tax /1	\$193.2	2.6%	0.0%	0.0%	100.0%	100.0%
<b>Total Income Taxes</b>	<b>\$1,496.6</b>	<b>29.4%</b>	<b>84.8%</b>	<b>6.3%</b>	<b>8.9%</b>	<b>100.0%</b>
<b>Taxes on Consumption</b>						
Sales & Use Tax	\$1,012.1	19.9%	61.4%	10.9%	27.6%	100.0%
Cig., Tob. & Alcohol Excise	\$167.1	3.3%	91.7%	7.8%	0.5%	100.0%
Insurance Companies Tax /2	\$72.9	1.4%	0.0%	0.0%	100.0%	100.0%
Motor Fuels Excise Taxes	\$229.2	4.5%	51.6%	8.6%	39.8%	100.0%
<b>Total Consumption Taxes</b>	<b>\$1,481.3</b>	<b>29.1%</b>	<b>60.3%</b>	<b>9.7%</b>	<b>30.0%</b>	<b>100.0%</b>
<b>Taxes on Wealth</b>						
Estate Tax	\$28.1	0.6%	86.0%	14.0%	0.0%	100.0%
<b>Taxes on Property</b>						
<i>Local</i>						
Homeowners (gross)	\$1,474.3	28.9%	86.4%	13.6%	0.0%	100.0%
Businesses (gross)	\$517.0	10.1%	0.0%	0.0%	100.0%	100.0%
Motor Vehicle Excise Tax	\$191.8	3.8%	70.0%	0.0%	30.0%	100.0%
Watercraft Excise Tax	\$2.2	0.0%	80.0%	20.0%	0.0%	100.0%
Homestead Exemption	(\$55.2)	-1.1%	100.0%	0.0%	0.0%	100.0%
Circuit Breaker Refunds	(\$40.5)	-0.8%	100.0%	0.0%	0.0%	100.0%
BETR/BETE Refunds	(\$64.9)	-1.3%	0.0%	0.0%	100.0%	100.0%
<i>State</i>						
State Property Taxes (gross) /3	\$47.8	0.9%	57.3%	13.9%	28.8%	100.0%
Public Utilities Tax	\$16.5	0.3%	0.0%	0.0%	100.0%	100.0%
<b>Total Property Taxes</b>	<b>\$2,089.0</b>	<b>41.0%</b>	<b>64.2%</b>	<b>9.9%</b>	<b>25.8%</b>	<b>100.0%</b>
<b>Total Taxes</b>	<b>\$5,095.0</b>	<b>100.0%</b>	<b>69.2%</b>	<b>8.8%</b>	<b>21.9%</b>	<b>100.0%</b>

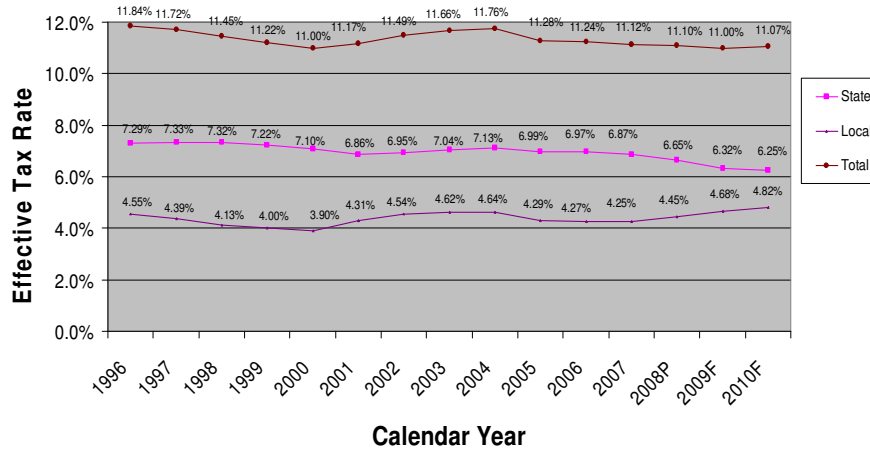
1/ Includes Franchise Tax on Financial Institutions.

2/ Includes Fire Investigation and Prevention Tax.

3/ Includes Unorganized Territory Taxes, Real Estate Transfer Taxes, and Commercial Forestry Excise Tax.

## Estimated State & Local Tax Burden

### Maine State & Local Effective Tax Rates 1996-2010



## History of Tax Reform in Maine

- Numerous studies over last 20 years pointing out.....
  - Very narrow sales tax base; heavily reliant on automobile and building supply sales
  - Relatively high top marginal tax rate (8.5%) that is applied at low level of taxable income
  - High property taxes for a number of reasons
  - Reports showing high state & local tax burden
  - Recent paper by Richard Woodbury for Federal Reserve Bank of Boston

## Maine's State Level Tax Base is Volatile

- Volatility of Maine's tax system is often discussed, but not quantified or compared to other states.
- Dye & McGuire (National Tax Journal, 1998) – Estimate a measure of the sensitivity of each state's revenue system to the business cycle. Assume constant tax law

Findings: Maine had the 11th most volatile tax base (individual income and sales) between 1976 and 1995 cyclical elasticity of estimated individual income tax = 1.18 (tied for 19th); cyclical elasticity of estimated sales tax = 1.23 (tied for 9th); combined elasticity of 1.2

## 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.**

## Individual Income Tax Model

- Micro-simulation model utilizing population of merged federal and state income tax returns (tax year 2000); resident and non-resident
- Federal and state tax returns supplemented by tax & rent returns to account for mostly elderly non-filers
- Statistical match with 2000 Census to account for remaining non-filers and additional economic and demographic information
- Consumption profiles imputed based on Consumer Expenditure Survey

## Sales & Use and Excise Tax Model

- 1997 U.S. input-output accounts by BEA
- Tables are scaled to size and structure of the Maine economy
- Detailed personal consumption information is mapped into CES categories
- Personal consumption is split between residents and non-residents using Travel Industry Association information on Maine

## Incidence Model

- Income and sales tax model runs create “classifier” files that are then imported in incidence model.
- Assumes statutory sales tax on consumers is all borne by consumers
- Resident consumer taxes from sales tax model are mapped into CES consumption profiles

## Sales Tax Changes

Expand sales tax to cover many services, including auto repair, and rentals and leases of tangible personal property

Raise meals and lodging tax from 7% to 8.5%

Raise short-term auto rental tax from 10 to 12.5%

## Income tax changes

Old law:

Income tax system similar to federal income tax, with appropriate adjustments. The top marginal tax rate was 8.5%.

New Law:

Income tax liability = 6.5% of AGI less household credit  
(Surtax of .35% from AGI above \$250,000)

## Household Credit

Only Maine residents are eligible

Partially refundable to offset sales tax increase for low-income taxpayers

Equals \$250/exemption plus larger of

Standard credit (based on filing status only)

Alternative Credit = 5.5% of Maine itemized deductions plus a fixed amount, subject to cap

The household credit is reduced by 1.5% of AGI exceeding a threshold amount (\$55,000 for married)

**Fiscal Impact of LD 1495 (\$ Million)**

Estimates are based on November 2009 Revenue Forecast

Sales tax changes effective 7/1/10; Income tax change effective 1/1/2010 with all revenue impact in FY 2011

	FY 11	FY 12	FY 13
<b>1) Revenue Impact</b>			
<u>Income tax</u>			
<b>Total</b>	(\$118.13)	(\$81.51)	(\$72.69)
<b>General Fund</b>	(\$112.22)	(\$77.44)	(\$69.06)
<b>Local Government Fund</b>	(\$5.91)	(\$4.08)	(\$3.63)
<u>Sales tax</u>			
<b>Total</b>	\$69.52	\$79.16	\$82.12
<b>General Fund</b>	\$66.04	\$71.29	\$73.83
<b>Local Govt. Fund</b>	\$3.48	\$3.96	\$4.11
<b>Tourism Fund</b>	\$0.00	\$3.92	\$4.18
<b>STAR Fund</b>	\$0.00	\$0.00	\$0.00
<u>Tax and Rent Relief</u>			
<b>General Fund</b>	(\$0.81)	\$0.00	\$0.00
<b>Net General Fund Revenue Impact</b>	<b>(\$46.99)</b>	<b>(\$6.15)</b>	<b>\$4.77</b>
<b>Net Revenue Impact</b>	<b>(\$49.42)</b>	<b>(\$2.35)</b>	<b>\$9.42</b>
<b>2) Administrative Expenses</b>	\$1.51	\$0.97	\$1.02
<b>3) Net General Fund Impact (Change in Revenue Less Administrative Expenses)</b>	<b>(\$48.50)</b>	<b>(\$7.12)</b>	<b>\$3.76</b>
<b>Addendum: Net General Fund impact if the income tax changes are effective 1/1/2011</b>	<b>\$31.66</b>	<b>(\$7.12)</b>	<b>\$3.76</b>

Note: The administrative expense estimate has not changed from the original LD 1495 estimate; any impact from the change in timing due to the referendum is being ignored.

**Maine Resident Income Tax in 2010, Pre-reform law and LD 1495**

Tax year 2010 revenues assuming income tax changes are in effect for the entire tax year

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)		
		Pre-reform law				LD 1495				Families with an income tax cut			Families with an income tax increase				
		Individual Tax		Individual Tax		Change in Tax		Share of income		Change in		Share of		Average			
		Liability	Percentage	Liability	Percentage	Liability	Percent	Liability	Tax	tax reduction	Change in	Share of	Change in Tax	Average	Share of	Change in Tax	Average
		(\$ MIL)	Distribution	(\$ MIL)	Distribution	(\$ MIL)	Change	(percent)	(percent)	(percent)	(percent)	(percent)	(\$ MIL)	Decrease	(percent)	(\$ MIL)	Increase
Expanded Income	Families																
\$ Infinity <=	11803	137,340	\$0.646	0.1%	\$8,055	-0.8%	-\$8,701	-1347.1%	8.3%	1.0%	99.7%	-\$8,706	-\$63.6	0.3%	\$0,005	\$13.5	
11803 <=	17359	68,670	\$3,243	0.3%	-\$2,752	-0.3%	-\$5,995	-184.9%	5.7%	0.6%	99.6%	-\$6,003	-\$87.8	0.4%	\$0,008	\$28.2	
17359 <=	22477	68,669	\$9,146	0.8%	\$3,272	0.3%	-\$5,874	-64.2%	5.6%	0.4%	99.7%	-\$5,882	-\$85.9	0.3%	\$0,008	\$41.4	
22477 <=	30287	68,670	\$22,250	1.9%	\$14,749	1.4%	-\$7,501	-33.7%	7.1%	0.4%	99.2%	-\$7,567	-\$111.1	0.8%	\$0,066	\$113.5	
30287 <=	40981	68,670	\$38,404	3.3%	\$29,918	2.8%	-\$8,486	-22.1%	8.1%	0.4%	97.9%	-\$8,809	-\$131.1	2.1%	\$0,323	\$220.6	
40981 <=	54596	68,669	\$74,692	6.4%	\$65,104	6.1%	-\$9,588	-12.8%	9.1%	0.3%	96.0%	-\$10,576	-\$160.4	4.0%	\$0,988	\$360.1	
54596 <=	75882	68,668	\$118,990	10.2%	\$107,765	10.1%	-\$11,226	-9.4%	10.7%	0.3%	94.6%	-\$12,827	-\$197.5	5.4%	\$1,600	\$429.3	
75882 <=	106974	68,672	\$216,713	18.5%	\$203,979	19.2%	-\$12,734	-5.9%	12.1%	0.2%	90.9%	-\$16,271	-\$260.7	9.1%	\$3,537	\$865.3	
116680 <= \$ Infinity		68,667	\$684,464	58.6%	\$649,518	61.1%	-\$34,945	-5.1%	33.3%	0.2%	80.9%	-\$57,249	-\$1,030.7	18.9%	\$22,303	\$1,718.7	
<b>Totals</b>		686,694	\$1,168,547	100.0%	\$1,063,496	100.0%	-\$105,051	-9.0%	100.0%	0.3%	95.8%	-\$133,888	-\$203.5	4.2%	\$28,837	\$1,007.5	
<u>Top Decile Decomposition: 90-95, 95-99, and 99+ :</u>																	
106974 <=	143103	34,335	\$175,284	15.0%	\$169,245	15.9%	-\$6,039	-3.4%	5.7%	0.1%	29,200	-\$10,536	-\$360.8	14.9%	\$4,497	\$87.5	
143103 <=	316958	27,470	\$253,707	21.7%	\$248,235	23.3%	-\$5,472	-2.2%	5.2%	0.1%	20,914	-\$14,397	-\$688.4	23.7%	\$8,925	\$1,370.8	
316958 <= \$ Infinity		6,862	\$255,473	21.9%	\$232,038	21.8%	-\$23,434	-9.2%	22.3%	0.5%	5,430	-\$32,316	-\$5,951.6	19.5%	\$8,881	\$6,622.3	

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**Maine Resident Sales Tax in 2010, Pre-reform law and LD 1495**

Tax year 2010 revenues assuming sales tax changes are in effect for the entire calendar year

Expanded Income	Tax Families	Pre-reform law		LD 1495		Change in Tax Liability (\$ MIL)	Percent Tax Change	Average Tax Increase
		Sales Tax Liability (\$ MIL)	Percentage Distribution	Sales Tax Liability (\$ MIL)	Percentage Distribution			
-\$ Infinity <= 11893	137,340	\$42.939	6.1%	\$45.788	6.0%	\$2.849	6.6%	\$24.5
11893 <= 17359	68,670	\$24.877	3.5%	\$26.526	3.5%	\$1.649	6.6%	\$30.5
17359 <= 22477	68,669	\$33.546	4.8%	\$35.804	4.7%	\$2.258	6.7%	\$38.8
22477 <= 30287	68,670	\$46.888	6.6%	\$50.023	6.6%	\$3.136	6.7%	\$50.5
30287 <= 40981	68,670	\$59.424	8.4%	\$63.750	8.4%	\$4.326	7.3%	\$65.4
40981 <= 54596	68,669	\$73.503	10.4%	\$79.266	10.5%	\$5.763	7.8%	\$84.9
54596 <= 73582	68,668	\$89.525	12.7%	\$96.489	12.7%	\$6.965	7.8%	\$102.0
73582 <= 106974	68,672	\$97.315	13.8%	\$105.038	13.8%	\$7.723	7.9%	\$112.5
106974 <= \$ Infinity	68,667	\$237.394	33.7%	\$255.834	33.7%	\$18.441	7.8%	\$268.6
<b>Totals</b>	<b>686,694</b>	<b>\$705.411</b>	<b>100.0%</b>	<b>\$758.519</b>	<b>100.0%</b>	<b>\$53.108</b>	<b>7.5%</b>	<b>\$84.3</b>
<b>Top Decile Decomposition: 90-95, 95-99, and 99+ :</b>								
106974 <= 143103	34,335	\$70.896	10.1%	\$76.374	10.1%	\$5.479	7.7%	\$159.6
143103 <= 316958	27,470	\$90.387	12.8%	\$97.371	12.8%	\$6.984	7.7%	\$254.3
316958 <= \$ Infinity	6,862	\$76.111	10.8%	\$82.089	10.8%	\$5.978	7.9%	\$871.1

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**Maine Resident Income Tax and Sales Tax in 2010, Pre-reform law and LD 1495**

Calendar year 2010 sales tax changes and tax year 2010 income tax changes, assuming the proposals are fully-phased in during the calendar year

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Expanded Income	Pre-reform law		LD 1495		Change in Tax Liability (\$ MIL)	Percent Change	Share of tax reduction (percent)	Change in after-tax income (percent)	Families with a tax cut			Families with an tax increase			
	Tax Families	Combined Tax Liability (\$ MIL)	Percentage Distribution	Combined Tax Liability (\$ MIL)					Percentage Distribution	Change in Tax Liability (\$ MIL)	Percent Tax Change	Average Tax Increase	Share of families (percent)	Change in Tax Liability (\$ MIL)	Percent Tax Change
-\$ Infinity <= 11893	137,340	\$43.585	2.3%	\$37.733	2.1%	-\$5.852	-13.4%	11.3%	0.7%	97.5%	-\$5.891	-\$44.0	2.5%	\$0.038	\$11.1
11893 <= 17359	68,670	\$28.120	1.5%	\$23.774	1.3%	-\$4.346	-15.5%	8.4%	0.4%	98.1%	-\$4.386	-\$65.1	1.9%	\$0.039	\$30.0
17359 <= 22477	68,669	\$42.692	2.3%	\$39.076	2.1%	-\$3.616	-8.5%	7.0%	0.3%	96.7%	-\$3.662	-\$55.2	3.3%	\$0.046	\$20.4
22477 <= 30287	68,670	\$69.138	3.7%	\$64.772	3.6%	-\$4.365	-6.3%	8.4%	0.2%	95.4%	-\$4.496	-\$68.6	4.6%	\$0.131	\$41.6
30287 <= 40981	68,670	\$97.828	5.2%	\$93.668	5.1%	-\$4.160	-4.3%	8.0%	0.2%	86.4%	-\$4.738	-\$79.8	13.6%	\$0.578	\$61.9
40981 <= 54596	68,669	\$148.196	7.9%	\$144.370	7.9%	-\$3.825	-2.6%	7.4%	0.1%	82.3%	-\$5.289	-\$93.6	17.7%	\$1.463	\$120.2
54596 <= 73582	68,668	\$208.514	11.1%	\$204.253	11.2%	-\$4.262	-2.0%	8.2%	0.1%	81.2%	-\$6.599	-\$118.2	18.8%	\$2.328	\$180.3
73582 <= 106974	68,672	\$314.028	16.8%	\$309.017	17.0%	-\$5.011	-1.6%	9.6%	0.1%	78.0%	-\$9.702	-\$181.1	22.0%	\$4.691	\$310.7
106974 <= \$ Infinity	68,667	\$921.858	49.2%	\$905.352	49.7%	-\$16.505	-1.8%	31.8%	0.1%	67.6%	-\$43.766	-\$942.2	32.4%	\$27.260	\$1,227.0
<b>Totals</b>	<b>686,694</b>	<b>\$1,873.958</b>	<b>100.0%</b>	<b>\$1,822.015</b>	<b>100.0%</b>	<b>-\$51.943</b>	<b>-2.8%</b>	<b>100.0%</b>	<b>0.1%</b>	<b>88.1%</b>	<b>-\$88.518</b>	<b>-\$146.4</b>	<b>11.9%</b>	<b>\$36.575</b>	<b>\$446.4</b>
<b>Top Decile Decomposition: 90-95, 95-99, and 99+ :</b>															
106974 <= 143103	34,335	\$246.180	13.1%	\$245.619	13.5%	-\$0.560	-0.2%	1.1%	0.0%	24.332	-\$6.229	-\$256.0	29.1%	\$5.668	\$566.7
143103 <= 316958	27,470	\$344.094	18.4%	\$345.606	19.0%	\$1.512	0.4%	-2.9%	0.0%	17.573	-\$9.581	-\$545.2	36.0%	\$11.093	\$1,209.9
316958 <= \$ Infinity	6,862	\$314.584	17.7%	\$314.127	17.2%	-\$147.57	-5.3%	33.6%	0.3%	4.545	-\$27.956	-\$6,151.1	33.8%	\$10.499	\$4,530.9

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# Suits Index: C.L. vs. LD 1495

Tax Category	2010	LD 1495 2010
Individual Income Tax	0.244	0.284
Consumer Sales Tax	-0.129	-0.124
Consumer Excise Tax	-0.432	-0.432
Estate Tax	0.567	0.567
Total State Taxes	0.036	0.043
Residential Property Taxes		
Gross of State Programs	-0.145	-0.145
Net of State Programs	-0.122	-0.122
Total State and Local Taxes	-0.028	-0.025

## Maine State & Local Effective Tax Rates 1996-2010

