Maine Center for Economic Policy

# Summary of Major Tax Changes to Follow as Maine's Budget Battle Heats Up

This document compares current tax laws to changes proposed by Governor LePage in his budget proposal and by Democrats in their Opportunity Agenda.

## Homestead Exemption

The homestead exemption shields a portion of a home's value from property tax.

### Current law

All Maine homeowners are able to claim a homestead exemption on their primary home that shields $20,000 in home value from property tax for 2017 and beyond. The homestead exemption saves homeowners on average $313 on their property tax bills.

### LePage Proposal

Maine homeowners under 65 would lose their eligibility for the homestead exemption resulting in a property tax bill of $313 more on average for eligible homeowners. Mainers 65 and older would continue to receive the benefit.

### Opportunity Agenda

Increases homestead exemption to $30,000 for all Maine homeowners on their primary home by 2019. This will save homeowners an average of $156 more compared to current law for a total average savings of $469 on property taxes for Maine homeowners.

*MECEP's take: Approximately 213,000 Maine homeowners under 65 would lose the homestead exemption under the governor's proposal at a time when property taxes are historically high. Particularly hard hit would be homeowners living in towns with high mil rates and low income homeowners who have a larger portion of their property tax bill shielded by the homestead exemption. The Democrats' Opportunity Agenda expands the program helping to promote property tax fairness for Maine homeowners and to export some of the costs of providing local services to non-resident homeowners. A town by town analysis of the impact of the governor's proposed changes to the homestead exemption can be found on MECEP's blog here .*

## Education Surcharge

A voter approved 3% surcharge on taxable household income over $200,000.

### Current Law

Beginning January 1, 2017, households owe a 3% tax on taxable income over $200,000. Funding from this measure is dedicated to public K-12 education.

### LePage Proposal

The surcharge would be delayed until 2018 and apply to all income. Surcharge revenue would no longer be dedicated to education.

### Opportunity Agenda

Same as current law.

*MECEP's take: Governor LePage's proposal effectively ignores the will of the voters, jeopardizes funding for schools, and gives huge tax breaks to the wealthy. It will contribute to rising property taxes and undermine the state's ability to improve school funding fairness in the future.*

## Personal Income Tax

The personal income tax is applied to the portion of household income that remains after deductions and exemptions are claimed. For example, a married couple that earns $56,000 and has two children has taxable income of just over $14,000 after claiming a standard deduction of $24,000 and personal exemptions worth over $17,000. A system of brackets and rates mean that taxpayers pay more as their incomes grow.

### Current Law

Single tax filers pay:
5.8% on taxable income between 0 and $21,049
6.75% on taxable income between $21,050 and $49,999
7.15% on income above $50,000

Married tax filers pay
5.8% on taxable income between 0 and $42,099
6.75% on taxable income between $42,100 and $99,999
7.15% on income above $100,000

All filers with taxable income above $200,000 pay an additional 3% on the amount of income above $200,000. For example, a taxpayer with $300,000 in taxable income pays an additional $3,000 which is dedicated to funding K-12 education.

### LePage Proposal

2018-2019
Single tax filers would pay:
2.75% on taxable income between 0 and $21,049
3.15% on taxable income above $21,050

Married tax filers would pay
2.75% on taxable income between 0 and $42,099
3.15% on taxable income above $42,100

2020 and after
All filers would pay 2.75% on all taxable income plus the 3% surcharge resulting in a flat tax rate of 5.75%

### Opportunity Agenda

Same as current law.

*MECEP's take: Governor LePage's proposed income tax changes would reduce state revenues significantly, making it harder to fund schools and support thriving communities. Recent evidence clearly shows this is a failed strategy for promoting economic growth. In fact, four of the five largest income-tax-cutting states in recent years – including Maine – have experienced slower job growth since enacting their cuts than the rest of the country.*

*The governor's proposal will also make Maine's tax system less fair. Even with the 3% surcharge on income above $200,000 contained in current law the wealthiest 1% of Maine households still pay a lower effective state and local tax rate than the middle 75 percent of Maine families. Including the reduction in federal income taxes households receive when state taxes go up, the effective state and local tax rate for the wealthiest 1% with the surcharge is 8.6%. For households with income between $19,000 and $153,000 -- the middle 75% -- the effective state and local tax rate is 9.1% and remains unchanged by the surcharge. Eliminating the surcharge as the governor proposes means that the primary beneficiaries of his tax plan will be wealthier households. In turn, low- and middle-income households will pay more in sales and property taxes to pay for income tax cuts for the wealthy and maintain funding for schools and local services.*

## Property tax fairness credit

The property tax fairness credit helps create a fairer tax system by reimbursing low- and moderate-income homeowners and renters a portion of property taxes or rent costs though a refundable credit that is claimed by filing state income taxes.

### Current Law

Maine homeowners and renters receive a refundable credit for up to half of their property taxes or 40% of their annual rent that exceeds 6% of their income.

The maximum allowable rent or property tax costs
Single household: $2,000
Household of two: $2,600
Household of three: $3,200

The maximum credit is
$600 for those under 65
$900 for those 65 and older

### LePage Proposal

Maine homeowners and renters receive a refundable credit for up to 100% of their property taxes or 40% of their annual rent that exceeds 5% of their income.

The maximum allowable rent or property tax costs
Single household: $2,000
Household of two or more: $2,700

The maximum credit is
$750 for those under 65
$1000 for those 65 and older

A guaranteed $400 credit is allowed for Mainers 65 and older with income under $20,000

### Opportunity Agenda

Maine homeowners and renters receive a refundable credit for up to 100% of their property taxes or 40% of their annual rent that exceeds 4% of their income.

The maximum allowable rent or property tax costs
Single household: $2,000
Household of two: $2,700
Household of three: $3,200

The maximum credit is
$750 for those under 65
$1000 for those 65 and older

A guaranteed $400 credit is allowed for Mainers 65 and older with income under $20,000

*MECEP's take: Maine lacks a comprehensive approach to limit property tax increases for communities and property taxes are at historic highs as a result. By providing targeted assistance to those who need it most, the enhanced credits contained in Governor LePage's proposal and the Democrats' Opportunity Agenda are a step in the right direction. In the governor's proposal, the enhanced PTFC will not make up for the loss of the homestead exemption for Maine homeowners under 65. Also, the maximum PTFC benefit for all plans remains well below the maximum $2,000 benefit provided under the old circuit breaker program that was discontinued in 2012.The Democrats' Opportunity Agenda assures that eligible households get greater value from the program and are more likely to qualify for the maximum credit.*

## Estate Tax

The estate tax is owed on property (cash, real estate, stock, and other assets) transferred from deceased persons to heirs.

| Current Law | LePage Proposal | Opportunity Agenda |
|---|---|---|
| The estate tax is owed on the portion of an estate's value that exceeds $5.49 million. Like the income tax, the estate tax is applied as a system of brackets and increasing rates from 10% to 12%. | Repeal the estate tax | Same as current law. |

*MECEP's take: The current estate tax affects approximately 60 of the more than 13,000 estates that pass from one generation to the next annually in Maine. Since 2012, limits on the estate tax have lifted the estate tax exemption from $1 million to $5.5 million. Repealing the estate tax in its entirety will cost the state $9 million annually in funding for important services. The loss of funding from this measure hurts our ability to fund the pillars of a strong economy like schools, infrastructure, and access to affordable healthcare.*

## Sales Tax

Sales taxes are collected as a percentage of final sales for certain goods and services.

| Current Law | LePage Proposal | Opportunity Agenda |
|---|---|---|
| 5.5% sales tax on most goods except most groceries and prescription drugs<br><br>9% lodging tax | Keeps 5.5% tax rate and expands the sales tax base to include:<br><br>Household services<br>Installation, repair, and maintenance services<br>Personal services<br>Personal property services<br>Recreation and amusement services<br><br>Applies a 6% tax to<br>Online rental platforms for property, video and audio services like AirBnB, Netflix, Hulu, etc.<br><br>Increases the lodging tax to 10% | Same as current law. |

*MECEP's take: It makes sense to broaden Maine's sales tax base to include a wider range of services and to increase lodging taxes. The changes proposed in the LePage plan will modestly improve revenue stability from sales taxes. However, it does not make sense to raise sales taxes in order to pay for income tax cuts for wealthy Mainers especially since sales taxes tend to be more regressive. The distributional consequences of the items proposed by the governor will be an important consideration in any final budget negotiation. There may be other ways to broaden Maine's sales taxes while minimizing the adverse effects on tax fairness. Both Amazon and AirBnB revealed plans to begin collecting sales tax on transactions in Maine beginning in April 2017.*