Tax Plan: Winners & Losers

Governor's tax proposals put Maine's wealthiest taxpayers ahead of working families and compromise future prosperity

A state budget that reflects the public's priorities should maintain public investments in our people and communities during good times and bad. Achieving shared prosperity requires sustainable and predictable revenues derived from a sense of mutual responsibility by all taxpayers.

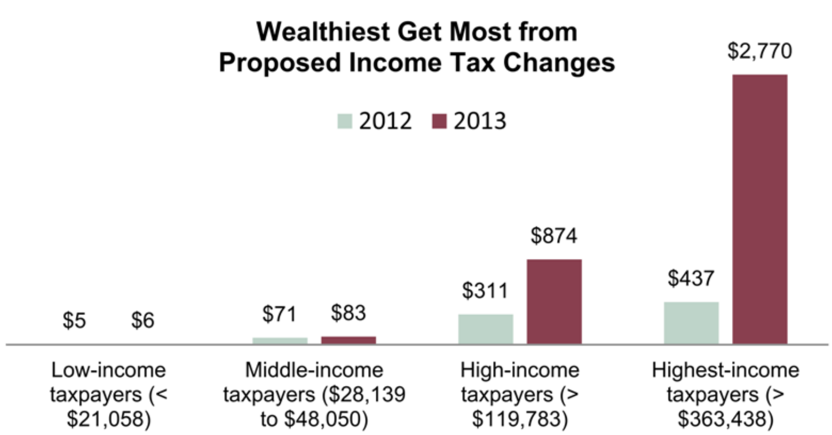
Governor LePage's recent tax proposals will not accomplish those aims. They provide huge tax breaks for the wealthy, undercut funding for important public services and investments, and shift costs to local governments and the private sector. At this critical moment, we need a balanced approach to address Maine's budget shortfall, not one that cuts spending on the backs of working Mainers while providing tax breaks for the wealthy.

Maine's wealthiest taxpayers receive the lions' share of benefits

Under full implementation of the Governor's proposed income and estate tax changes, approximately half the benefits would go to the wealthiest 10% of taxpayers. Phased in over time, the proposals would:

- Eliminate in the coming budget year the state alternative minimum tax, which today helps to ensure that wealthy taxpayers pay their fair share.
- Lower the top income tax rate in FY 2013 on income above about $50,000 from 8.5% to 7.95%.
- Double from $1 million to $2 million in FY 2014 the size of estates exempt from the estate tax.

This sequencing lets the Administration defer some costs associated with these tax breaks into future years and will likely require future reductions in services in the next biennium. This chart highlights the distribution and average annual benefit from proposed income tax changes by income over the next biennium.



Weakening the estate tax further distorts benefit distribution . This affects 550 estates and costs the state almost $30 million in lost revenue in the 2014-2015 biennium. Fully implemented, over 80% of the benefits of proposed tax changes go to taxpayers with incomes greater than $63,648 at a cost to the state of $203 million in the coming biennium. This is on top of the $840 million shortfall the state faces to maintain current service levels and fulfill its commitment to retirees.

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- $400
Lost property tax relief for households receiving the maximum Circuit Breaker Program benefit.

75,544
Number of non-elderly Maine households receiving Circuit Breaker property tax relief in FY2010.

$83
Average proposed income tax break for Maine families earning between $28,139 and $48,050 in FY 2013.

$874
Average income tax break in FY 2013 for the 69,667 Maine families making more than $119,783 in the Governor's proposed budget.

$2,770
Average proposed income tax break in FY 2013 for Maine families making more than $363,438.

550
Approximate number of estates that benefit from doubling the estate tax exemption from $1 million to $2 million in FY 2014.

$30 million
Cost in lost revenues from doubling the estate tax exemption in FY 2014-15.

$203 million
Cost to the state in the coming biennium of proposed tax changes, 50% of which benefit families earning more than $119,783.

Working families, seniors, retired teachers and state employees and those the recession hit hardest bear the brunt of service cuts to pay for the Governor's proposed tax breaks for wealthy Mainers

Proposed tax breaks that primarily benefit the wealthy would cost $203 million over the coming biennium and come at the expense of services critical to working families hit hardest by the recession. Examples include:

- **Cuts in property tax relief for Maine families**: The proposal cuts by 20% the tax relief more than 150,000 eligible families would receive under the Maine Residents Property Tax and Rent Refund Program (also known as the "Circuit Breaker"). The Circuit Breaker improves economic security for Maine families based on need through targeted reductions in property taxes. Instead of providing an average tax break of $874 to Maine's wealthiest 10% of families, the Governor should use the same dollars to improve enrollment and fully fund property tax relief for families that need it most.
- **Rolling back health coverage for working parents and prescription drug assistance for seniors**: Maine now offers health coverage to eligible working parents and prescription drug assistance for seniors. The Governor's budget freezes or cuts these programs by roughly the cost of doubling the estate tax exemption.
- **Compromising retirement security for public employees**: The Maine Public Employee Retirement System covers about 75,000 active, inactive and retired teachers and state employees. This mandatory plan, a substitute for Social Security, provides average annual pensions of $18,500. The Governor's proposal to freeze cost of living adjustments for retirees undercuts their economic security in order to cut taxes for Maine's wealthiest residents.

Coming up short, jeopardizing jobs and shifting costs

Maine's infrastructure is crumbling. Roads are deteriorating, bridges are substandard and higher education suffers from chronic underfunding. Though the Governor claims his budget would increase funding for education and highways, total spending in these critical areas will actually decline as a result of reduced federal support and the Governor's stated opposition to issue bonds, despite Maine's strong credit rating. Maine must invest to compete. Such investments will do more to create jobs and improve Maine's business climate than the Governor's proposed tax cuts for the wealthy.

Additionally, the Governor's proposed tax breaks for the wealthy would mean insufficient revenue to fulfill his own campaign pledge to boost state education funding to the full 55% voters approved in 2005. His proposed cuts in aid to municipalities will further hinder their efforts to meet residents' needs in difficult times. These actions, combined with reduced federal aid to schools, will shift more of the tab for funding schools and other services to municipal property taxpayers.

Real solutions for Maine's economic future

Under the Governor's proposed tax policies Maine's wealthiest ten percent win while the rest of us lose. What we need instead is meaningful debate about comprehensive tax reform that puts every alternative on the table – not just expensive tax breaks for the rich, but also policies to better assist low- and moderate-income taxpayers. Changing the income levels at which the top state income tax rate kicks in, expanding and making refundable the state earned income tax credit, and more robust and streamlined property tax relief are options that offer more to more Maine families. The Legislature must also ensure that tax breaks and subsidies that cost billions in lost revenue and are rarely evaluated for their economic benefits get the same scrutiny and review that all other government spending receives. Only then will we have a tax system that benefits the majority of Mainers and provides a predictable revenue stream for critical public investments.

Figures come from data provided by Maine Revenue Services. Pension information comes from MePERS data at http://www.msrs.org/.

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About the Maine Center for Economic Policy

The Maine Center for Economic Policy advances public policies that help Maine people prosper in a strong, fair and sustainable economy. We advance this mission through high-quality research, analysis, citizen education, and coalition building. MECEP is an independent, nonpartisan organization.

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