MECEP Maine Center for Economic Policy

LD 849
"An Act to Provide Tax Relief for Maine Citizens by Reducing Income Taxes"
Fact Sheet

LD 849 as amended proposes two significant changes to Maine's tax system. The proposal:

- ratchets down state revenues by gradually lowering Maine's income tax rates to a flat 4%, cutting income tax revenues by $600 million over time. Approximately 75% of the benefit of this proposal goes to the top 20% of taxpayers.
- raids 40% of all General Fund revenues that exceed budgeted amounts each year, as well as any revenues over the spending limit established by LD 1 in 2005. In effect, this cuts tens of millions per year which would otherwise go to the Budget Stabilization or "rainy day" Fund, General Fund Operating Capital, Capital Construction and Improvements Reserve, Retirement Allowance Fund, and Retiree Health Insurance Fund.

There are several issues with these proposed changes. These are highlighted below.

- **Maine people have rejected this kind of approach to budgeting three times,** in the two TABOR and Palesky Tax Cap referenda.
- **LD 849 jeopardizes state funding for education, health, and other public services and will result in an increased shift to property taxes.** Maintaining critical investments in education, health care, and other public services will fall to property taxpayers or service providers, businesses, and individual consumers.
- **LD 849 is fiscally irresponsible, cutting income tax revenue almost in half over time.** This proposal puts Maine's credit rating at risk by reducing contributions to existing stabilization and reserve funds. It also weakens our capacity to maintain long-term investments and to withstand future economic downturns in a manner that is fiscally responsible.
- **LD 849 overreaches and binds the hands of future Legislatures.** Historically, those officials elected by the people each year determine how revenues are allocated. This proposal circumvents that democratic process. The ratcheting effect puts budget decisions on auto-pilot and ensures that future Legislatures will face ever-greater shortfalls.

LD 849 combined with last year's income and estate tax cuts and the Governor's proposed pension tax cuts will result in a loss of over $800 million a year in General Fund revenues. That's more than 25% of Maine's current General Fund budget. This approach won't make Maine more competitive. It merely binds the hands of future leaders and cannibalizes our ability to invest in a world class workforce and infrastructure.

A better approach would be to make sure the state is living up to its financial obligations to fund K-12 education as called for by Maine people at the ballot in 2005, and restore targeted property tax relief. LD 849 is not the solution. It puts Maine's financial future in even greater peril and thwarts the will of Maine people expressed in three previous referenda.

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