Maine Center for Economic Policy

Major tax changes in the governor's budget

Homestead Exemption- Part G

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.

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 program helps promote property tax fairness for Maine homeowners and helps export some of the costs of providing local services to non-resident homeowners. Eliminating the program for homeowners under age 65 would jeopardize these outcomes.

Personal Income Tax- Part D

The personal income tax applies to household income after deductions and exemptions lower the total amount of income that taxes are owed on. A system of brackets and rates apply higher tax rates on income over specified thresholds.

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

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

MECEP's take: These tax changes would have huge revenue consequences, 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. This proposal will also make Maine's tax system less fair. Not only will the lion share of the tax cuts go to wealthier households, but they will also require low- and middle-income households to pay a greater share of their income in state and local taxes to cover the shortfall created by this proposal.

Education Surcharge- Part D

A voter approved tax on wealthy households in Maine adds a 3 percent tax on taxable household income over $200,000.

Current Law

Beginning January 1, 2017, households will owe a 3 percent tax on taxable income over $200,000.

LePage Proposal

The education surcharge would be delayed until 2018 when the 3 percent tax would apply to all income.

MECEP's take: This 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.

Property tax fairness credit- Part D

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 income tax credit.

Current Law

Maine homeowners and renters receive a refundable credit for up to half of their property taxes or 15% of their annual rent that exceed 6 percent of their income.

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 15% of their annual rent that exceed 5 percent of their total income.

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

A guaranteed $400 credit is allowed for 65+ Mainers 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, this is a step in the right direction. However, it will not make up for the loss of the homestead exemption for Maine homeowners under 65. Also, the maximum PTFC benefit remains well below the maximum $2,000 benefit provided under the old circuit breaker program that was discontinued in 2012.

Pension Exemption- Part D

A pension exemption allows a filer with pension income to reduce their taxable income by a certain amount of their pension income.

Current Law

Filers are allowed to exempt up to $10,000 in pension income from their taxable income.

LePage Proposal

The pension exemption would increase by $5,000 a year until it reached $35,000 by 2021.

MECEP's take: This proposal affects individual retirement accounts as well as pensions. It is a costly exemption that ultimately provides the greatest benefit to more economically secure retirees.

Corporate Income Tax- Part D

The corporate income tax applies to corporate profits less write-offs and deductions. As with the personal income tax, a system of brackets and rates apply higher tax rates on income over specified thresholds.

Current Law

Corporations pay:
3.5% on taxable income up to $25,000
7.93% on income between $25,000 and $75,000
8.33% on income between $75,000 and $250,000
8.93% on income over $250,000

LePage Proposal

Corporations would pay:
3.5% on taxable income up to $25,000
7.93% on income between $25,000 and $75,000
8.33% on income over $75,000

MECEP's take: This is an unnecessary tax giveaway to the biggest corporations, many of which are likely headquartered out of state. Also, the effective tax rate for corporations is significantly lower than current rate structure indicates. The real issue for most corporations in Maine is property taxes rather than income taxes. A 2015 Ernst and Young study of all state and local taxes paid by Maine businesses found that property taxes accounted for more than 55% of all taxes paid compared to the corporate income tax which accounted for slightly more than 5%. Maine's corporate tax rate is not an impediment to new investment. In fact, a 2011 Ernst and Young study of the competitiveness of state and local business taxes on new investment ranks Maine's effective tax rates as the lowest in the country.

Estate Tax- Part F

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

Current Law

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 percent.

LePage Proposal

Repeal the estate tax

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- Part E

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

Current Law

5.5% sales tax on most goods except most groceries and prescription drugs

9% lodging tax

LePage Proposal

Broadens Sales Tax Base to include certain services

Expands the sales tax base to include:
Household services
Installation, repair, and maintenance services
Personal services
Personal property services
Recreation and amusement services

Applies a 6% tax on
"transient rental platforms" like.. AirBnB, Netflix, Hulu, etc.

Increases the lodging tax to 10%

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. These changes will modestly improve revenue stability. However, it does not make sense to raise sales 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 should be factored in to any final decision. There may be other ways to broaden Maine's sales taxes without undermining tax fairness.