Maine Center for Economic Policy

POLICY BRIEF

Comparing Maine's Democratic and Republican Tax Bills

Because of the federal tax overhaul spearheaded by President Trump and Congressional Republicans, the Maine Legislature is considering two competing proposals to change its own tax code. Lawmakers face a stark choice: Will Maine double down on the lopsided tax policy set at the federal level, which favors those at the top at the expense of most Maine households? Or, will the state take steps toward rebalancing the tax code and protecting the resources needed to support thriving communities?

Maine's legislative Republicans, following in the footsteps of the Republican Congress, want to go down the path that favors the few at the expense of the many. Their plan would give Maine's wealthiest families and most profitable businesses even more benefits, on top of those they'll already claim under the new federal law.

In contrast, a plan supported by Maine's legislative Democrats seeks to rebalance the ledger. It expands tax credits for low- and middle-income working families and increases property tax relief for homeowners and renters. The profitable businesses and wealthy families scheduled to reap massive rewards from the federal tax law are held harmless by the Democrats' plan. They will still receive a large tax cut from the federal government and would see no increase to their overall income taxes.

The Democrats' plan also carries a smaller price tag than the Republican proposal — $51.5 million versus $89 million. Despite the lower cost, it does more good for more Mainers, and — perhaps most importantly — will focus its benefits on those left behind by the federal tax overhaul.

MOST MAINE FAMILIES FARE BETTER UNDER DEMOCRATIC TAX PLAN

The recently enacted federal tax overhaul eliminated the personal exemption, a tax-lowering deduction claimed by nearly all Maine families, worth $4,150 per household member. Elimination of the personal exemption at the federal level calls into question Maine's own personal exemption, which mirrored the federal deduction.

Both the Democratic and Republican plans seek to replace the personal exemption but take different approaches, with the Republican "fix" creating larger benefits for wealthier families.

Beyond replacing the value of the personal exemption, the Democratic plan goes further for Maine families. For example, it boosts Maine's Earned Income Tax Credit to combat cuts to the federal EITC over time. (Several states are choosing to expand their state EITCs this year for this reason, and Maine is a good candidate for doing so. Among the states with their own EITCs, Maine has the third-smallest in the county and smallest in New England.) Democrats also address rising property taxes, which continue to be a chief tax policy concern in Maine as chronic underfunding of state aid for municipalities and education hit families as towns and cities increase property taxes to make up the difference.

For more details on the two plans, see Appendix A.

Democratic Proposal:

Personal exemption fix: Replaces the personal exemption with new and equivalent nonrefundable credits for each adult, child and dependent in the household, which phase out for high-income households.

Republican Proposal

Personal exemption fix: Creates new zero-percent bracket for taxable income up to the value of the personal exemption and nonrefundable tax credits for each child and dependent; increases standard deductions; and expands deductions to allow wealthier families to claim greater benefit.

Democratic Proposal:

Targets relief for working families: Triples the value of the Maine Earned Income Tax Credit, a proven anti-poverty program linked to higher workforce participation and improved outcomes for children.

Republican Proposal:

No targeted relief for working families.

Democratic Proposal:

Increases property tax relief: Maine's Property Tax Fairness Credit was created to replace the old circuit breaker program that helped offset high property tax costs for low- and middle-income households. The Democrat's proposal increases the maximum benefit of this refundable credit, extends the credit to more households and creates a minimum credit for low-income seniors.

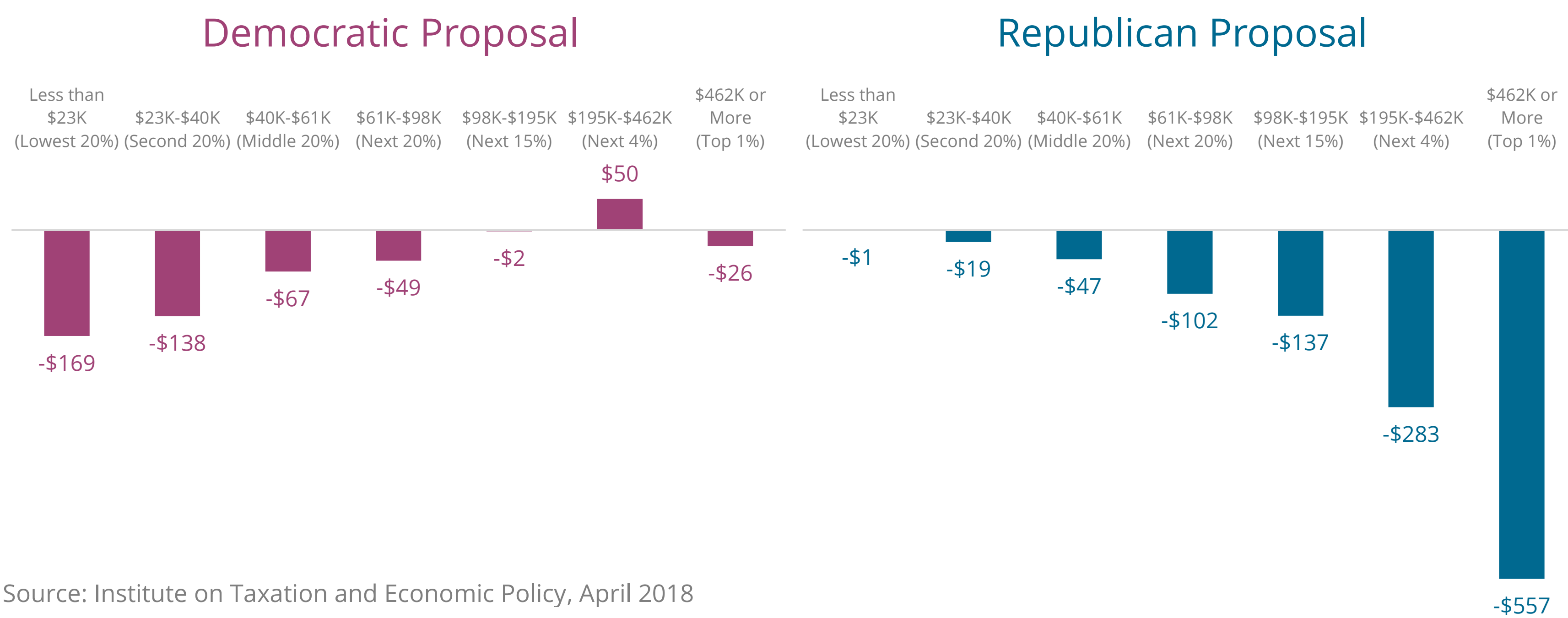
Republican Proposal:

No increase to property tax relief.

TAX PROPOSALS OFFER CONTRASTING VISIONS FOR MAINE'S TAX CODE

The Democratic proposal would provide a $169 tax cut on average to the bottom one fifth of Maine households while the Republican proposal would only give a $1 benefit to these same households. The top 1 percent of households would see a $26 tax cut under the Democrats proposal and a $557 tax cut under the Republican plan. These changes would come in addition to federal tax cuts that were skewed toward the wealthiest households and would increase taxes on the bottom 80 percent of Maine households, on average, by 2027. **For example, the $50 tax increase on Maine households with incomes between $195,000 and $462,000 in the Democratic plan would be more than negated by the $8,160 tax cut they're scheduled to receive under the new federal tax law.** *For more detail, See Appendix B.*

Average Tax Change by Income Group, 2018



Source: Institute on Taxation and Economic Policy, April 2018

Note: This analysis includes only the personal income tax provisions of each plan. For the Democratic proposal that includes a $300 nonrefundable personal exemption credit, a $300 nonrefundable child and dependent credit, a tripled state EITC, and an expanded property tax fairness credit. The Republican proposal includes a $500 nonrefundable child and dependent tax credit, a new zero-percent income tax bracket, an increase in the standard deduction and an expansion of deduction allowances for some higher income households.

REPUBLICAN PLAN CREATES $22.4 MILLION FREE PASS FOR WEALTHIEST ESTATES

Maine, like the federal government, applies an estate tax to the transfer of intergenerational wealth. The estate tax limits, to a degree, the large tax breaks extremely wealthy households receive on their wealth as it grows, which can otherwise go untaxed. The estate tax exemption shields a portion of an estate's value from the estate tax.

In 2011, Maine's maximum estate tax exemption was set at $2 million but since then, it has grown by leaps and bounds. Current law sets the exemption at $11.2 million. This ballooned exemption has eroded the estate tax base to the point that today, only approximately 20 of the more than 13,000 estates that pass from one generation to the next in Maine annually pay any estate tax at all. Any further growth in the exemption would only benefit the top one-tenth of 1 percent of Maine estates.

Democratic Proposal

Maintains current estate tax exemption.

Republican Proposal

Doubles the estate tax exemption, allowing estates of married couples to shield $22.4 million in wealth from estate tax. This would represent an elevenfold increase in the estate tax exemption since Gov. LePage took office.

DEMOCRATS PARE REPUBLICAN PROPOSAL TO CREATE SLEW OF NEW BUSINESS TAX BREAKS

Changes to portions of the tax code that affect profitable businesses were the centerpiece of the federal tax overhaul, and likewise make up the largest portion of the Republican proposal, which proposes replicating all the federal business tax breaks at the state level.

The Democratic proposal rejects most, but not all, new tax breaks for profitable businesses proposed by Gov. LePage and the Republicans. While some groups have advocated for states to "claw back" federal tax benefits in the form of increased state-level taxes, Democrats in the Maine Legislature have rejected this approach. While they don't embrace the full slate of business tax breaks contained in the Republican plan, Democrats propose targeted tax breaks for small and medium-size businesses that make capital investments.

Democratic Proposal

Maintains current law regarding bonus deprecation benefits though the Maine Capital Investment Credit. The credit benefits businesses that make capital investments in Maine. Under current law, businesses will be able to write off 40 percent of Maine-based capital investments in 2018 and 30 percent of those made in 2019.

Republican Proposal

Eliminates the Maine Capital Investment Credit and fully conform to federal bonus depreciation: Expand bonus depreciation credits to allow businesses to write off 100 percent of capital investments in their first year, including capital investment made outside of Maine. Tax breaks for out-of-state capital purchases by corporations alone would cost Maine $18 million this budget cycle.

Democratic Proposal

Expands Section 179 deduction. Mirrors changes in federal law to allow businesses to write off up to $1 million in new capital assets' value in their first year.

Republican Proposal

Same.

Democratic Proposal

Maintains current Maine Corporate Alternative Minimum Tax. The Corporate AMT prevents tax dodging by ensuring a profitable corporation cannot escape its income tax liability by amassing enough credits and deductions.

Republican Proposal

Eliminates the Maine Corporate Alternative Minimum Tax, opening the door for profitable corporations to avoid Maine income taxes entirely.

Democratic Proposal

Maintains Maine's current corporate tax brackets.

Republican Proposal

Eliminates the top corporate tax rate. By eliminating the top corporate tax rate of 8.93 percent on taxable income over $250,000, the Republican proposal makes Maine's tax code more regressive, and delivers new tax breaks to the wealthiest Maine corporations.

CONCLUSION

Taxes are the way we all come together to pay for the things that benefit all of us. By funding education and infrastructure, public health systems and public safety, taxes allow us to pay for the things that make our society work.

The Democratic and Republican proposals, with their respective price tags of $51.5 million and $89 million, both allocate significant public resources to tax cuts. These cuts reduce the revenue available to future budget writers, making it harder for Maine to pay for those things that help communities and families thrive.

While all income tax cuts affect future revenue, not all income tax cuts are created equal. For example, some cuts stimulate economic activity and make the tax code fairer, while others contribute to inequality by skewing the code in favor of the wealthy.

> The Democratic plan distributes benefits across the bottom and center of the income distribution, supporting low- and middle-income families with targeted relief. The proposed expansion of the EITC will help those Mainers make ends meet, spurring economic activity by giving families more resources to spend on groceries, child care and other goods and services purchased in the real economy. The increased property tax fairness credit will provide needed relief in the face of skyrocketing property taxes and keep Mainers — particularly seniors — from being priced out of their homes.
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> Meanwhile, the Republican plan takes the opposite approach to Maine's families, providing huge benefits to the top 1 percent and next to nothing for the bottom 40 percent of Maine households. The plan also ignores the growing reliance on property taxes — a harmful, regressive trend in Maine's tax system.

The two plans' approach to the estate tax and business taxes reveal the sides' priorities even more clearly.

> The Democratic proposal to maintain the current estate tax exemption is fairer and more responsible than the Republican proposal to double it. However, the current estate tax exemption already creates a scenario in which large capital gains for the wealthiest families in Maine remain untaxed in perpetuity — increasing inequality generation after generation. This allows inequality to grow, generation by generation. A better proposal would be to decrease the estate tax exemption to a prior level.
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> Similarly, Democrats reject the most egregious new tax breaks for profitable businesses embraced by the Republican proposal. However, MECEP sees little reason to expand benefits under Section 179, which do little more than create new write-offs for some of the largest companies in the state, with new benefits accruing only to those who spend *more than* $500,000 on capital investments in a single year. Accelerated depreciation programs such as Section 179 expensing may have made sense during the recession, but they are an unnecessary hit to revenue when the economy is doing well.

It’s critical to note that the two plans cannot be considered in a vacuum. Enactment of either one would build upon the foundation laid by the federal tax overhaul passed by Republicans in Congress and signed into law by President Donald Trump in December.

While the federal law includes small, temporary tax cuts for low- and middle-income Americans, its cornerstone is a permanent restructuring of the tax code to deliver massive tax breaks to large, profitable corporations and the wealthy American households that benefit from the ballooned corporate profits that follow. By 2027, when the temporary tax cuts for families evaporate, the bottom 80 percent of Maine households will see their taxes *increase,* while the wealthiest households continue to receive huge cuts.

The federal tax law amounts to a tremendous realignment of the federal tax code, in which the top grows ever more wealthy and powerful at the expense of the majority of American and Maine households.

Of the two plans on the table, the Democratic plan is the only one that rejects the broken model of the federal tax law. Where the Republican proposal exacerbates inequality, Democrats propose a broad distribution of benefits to those Maine families left behind by the federal tax changes. Where the Republican plan continues to skew the tax code in favor of the wealthy and powerful, Democrats takes modest steps toward restoring balance.

APPENDIX A

The following table compares the two tax plans in more detail, side by side. The table includes only the most consequential provisions on which the plans differ and is thus not exhaustive. There are other less significant differences between the plans, and significant areas of overlap that have not spurred debate among policymakers.

	Democratic Tax Plan	Republican Tax Plan
Families	Replaces personal exemptions with a $300 nonrefundable personal exemption credit and $300 nonrefundable credit for each child and dependent, both of which begin to phase out at $200,000 for single filers and $400,000 married filers.	Replaces personal exemptions with a zero-percent bracket on income up to $4,150 for single filers and $8,300 for married filers with no phase-out, and a $500 nonrefundable credit for each child and dependent, which phase out at $200,000 for single filers and $400,000 married filers.
	Triples refundable Earned Income Tax Credit, from 5 percent of the federal credit to 15 percent. For tax year 2018, the Maine EITC would grow from a maximum of $322 to $967.	Increases standard deduction from $11,600 to $12,000 for single filers and from $23,200 to $24,000 for married filers.
	Expands Property Tax Fairness Credit to provide larger offsets for rising property tax and rent costs. The plan increases the maximum benefit of this refundable credit from $600 to $750 for filers under 65 years old and from $900 to $1,000 for seniors. Expands the credit to more households and instates a $400 minimum credit for low income seniors.	Increases deductions for higher income households by lifting the income level at which standard and itemized deductions phase out. Phase-out levels for itemized and standard deductions would increase from $70,000 to $80,000 for single filers and from $140,000 to $160,000 for married filers.
Estates	Keeps the current estate tax exemption, allowing single estates to pass on up to $5.6 million of wealth	Doubles the current estate tax exemption, allowing single estates to pass on up to $11.2 million of wealth

	untaxed and married estates to pass on $11.2 million of wealth untaxed.	untaxed and married estates to pass on $22.4 million of wealth untaxed.
Businesses	Maintains Maine's corporate alternative minimum tax. Maintains Maine's top corporate tax rate of 8.93 percent on taxable income above $250,000. Expands Section 179 expensing to allow businesses to write off up to $1,000,000 in capital assets in the first year of use, up from the current limit of $500,000. Maintains current law regarding the Maine Capital Investment Credit, which allows businesses to write off 40 percent of investments made in 2018 and 30 percent of investments made in 2019.	Repeals Maine's corporate alternative minimum tax. Repeals Maine's top corporate tax rate. Expands Section 179 expensing to allow businesses to write off up to $1,000,000 in capital assets in the first year of use, up from the current limit of $500,000. Repeals the Maine Capital Investment Credit and conforms fully to federal bonus depreciation, allowing companies to write off 100 percent of capital investments in the first year of purchase. Conforming to federal bonus depreciation also allows companies to write off investments they make outside of Maine.
Total Cost FY18-19 [1]	$51.5 million	$89 million

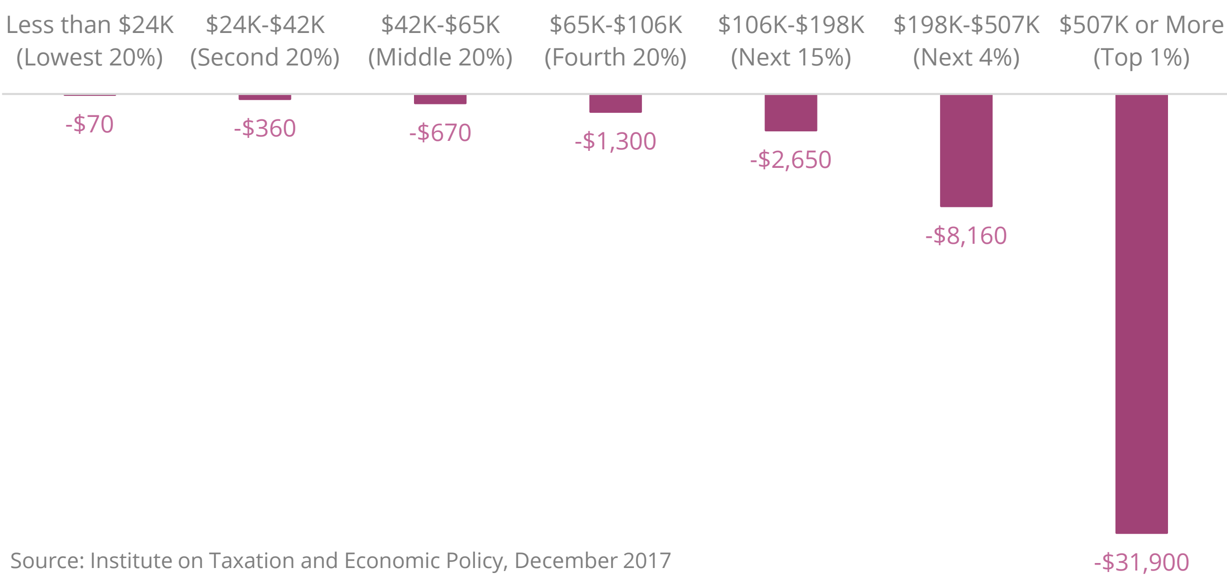
[1] Total cost represents full value of the proposal's fiscal note for the current two-year budget cycle, not a sum of the provisions enumerated here.

APPENDIX B

As lawmakers consider changes to the Maine tax code, it's important to consider the context of the recent federal tax overhaul, which delivered large income tax breaks to the wealthiest Maine households in the form of individual and corporate tax cuts, and small tax breaks for low- and middle-income families that will evaporate into tax increases by 2027.

Wealthiest Maine households gain immediate windfall from federal tax breaks

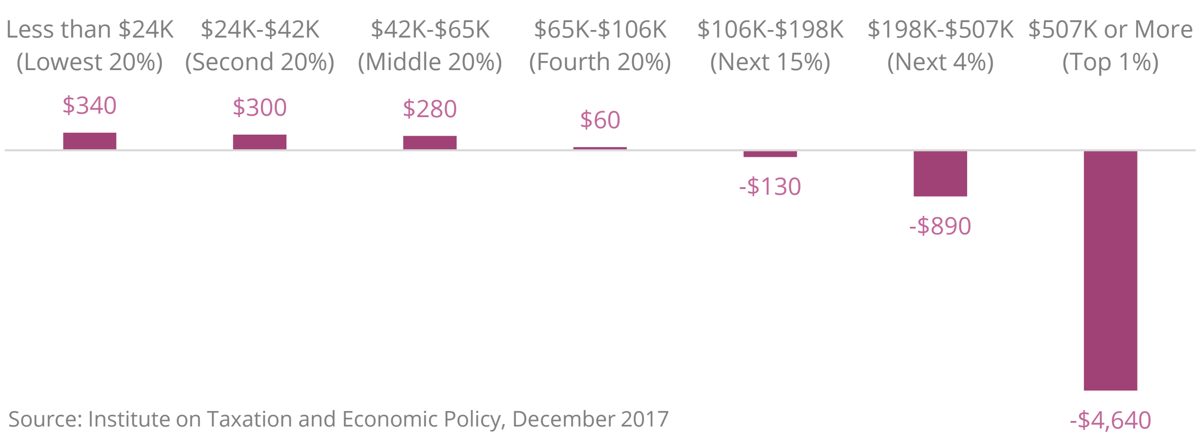
Federal tax change by Maine household income group, 2019



Source: Institute on Taxation and Economic Policy, December 2017

By 2027, low- and middle-income households see tax increase from federal law

Federal tax change by Maine household income group, 2027



Source: Institute on Taxation and Economic Policy, December 2017