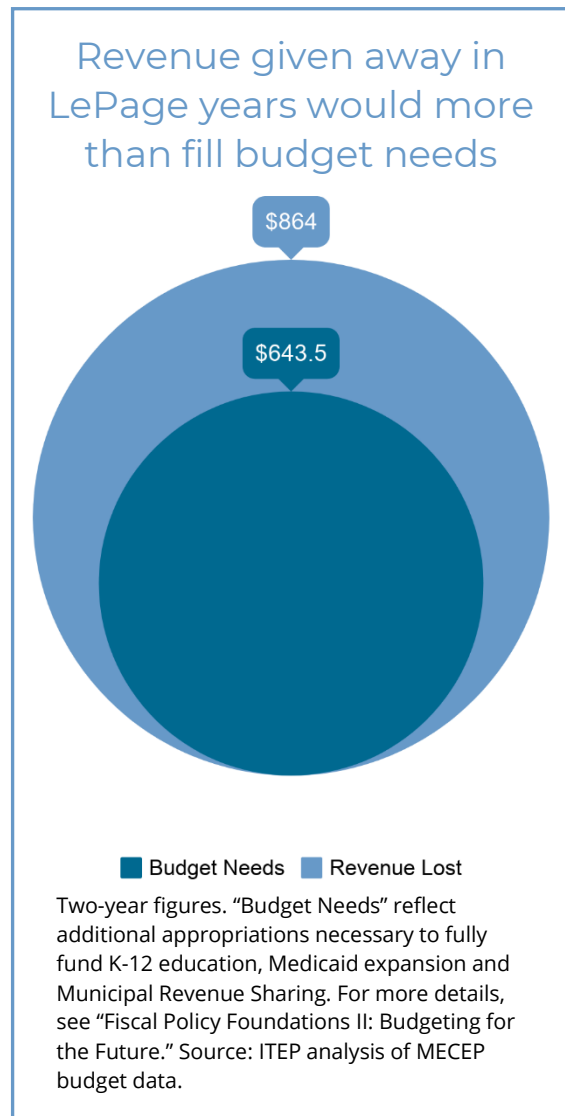




# Fiscal Policy Foundations I: Re-balancing Maine's Tax Code

The next Legislature has the opportunity to repair Maine's tax code after years of changes have knocked it out of balance.

Four rounds of income tax cuts in the past eight years have further tilted the code toward those at the top, allowing them to get out of contributing what they should. As a result, Maine will have almost \$900 million less over the next two years than it would have had under 2010 tax law. That's money no longer available to pay for things that benefit everyone — like education, health care and infrastructure.



Policymakers have prioritized tax cuts that benefit those at the top over investments in things all Mainers need. Over half the revenue lost to income tax cuts will go to the top one-fifth of households next year. For example, the top 1 percent received a \$16,000 annual tax cut from the 2017 repeal of the voter-approved 3 percent surcharge to fund education alone.

The decision not to collect hundreds of millions of dollars in income tax prompted shortfalls in state spending on education and local services. These budget-busting tax cuts for those at the top have forced communities to either slash municipal and school budgets or increase property taxes for homeowners and renters. The loss of revenues at the state level is especially difficult for poorer communities and those with small tax bases, because they have no ways to make up the difference.

The bottom line is that, because of income tax cuts for those at the top, the total resources available to invest in helping Maine communities thrive has dropped by a third of a billion dollars annually — even with average Mainers paying higher property taxes. (On average, Mainers paid \$30 million more per year in property taxes between 2011 and 2016 than in the previous six-year period.)

So while the wealthiest have enjoyed their income tax breaks, communities have been hit twice by the increasingly lopsided tax code: Lower- and moderate-income families and seniors on fixed incomes have been forced to absorb rising property tax bills, making it harder for them to cover other basic expenses. And the services those families rely upon have been cut despite the higher property taxes

Maine can and must rebalance its tax code so that everyone pays their fair share and the state can once again invest in its people, its communities and its future.

## THE LEGISLATURE CAN CHOOSE TO RE-BALANCE THE TAX CODE

From the massive federal tax cuts to tax changes in Maine that disproportionately benefited the wealthiest households, there are opportunities to balance the tax code and tap into new resources to fund education, infrastructure and health care, and to target credits in a way that balances the scales for low- and moderate-income Mainers.



### **Solution 1: Roll back income tax breaks for the wealthiest households.**

Reversing costly tax breaks for those with the ability to pay more, or creating high-income surcharges, would mean more resources for investments that benefit all of us — rich and poor, white, black and brown.



**Solution 2: Clean up the estate tax carveout.** Maine's estate tax has eroded so much over the last decade that millionaires and billionaires now get a free pass on the first \$11 million in wealth they pass on. Closing this loophole would restore tens of millions in lost public resources for schools and communities.



**Solution 3: Close business tax loopholes.** The largest Maine businesses are benefiting from tens of millions in tax breaks without any real accountability for job creation or investment. Eliminating these tax breaks could level the playing field for small businesses and save resources for real job creation policies, such as job training.



**Solution 4. Boost credits for working families and seniors.** Maine's tax credits for working families and seniors aren't doing enough to offset the higher price these groups are paying for recent sales and property tax increases. Expanding the Earned Income Tax Credit and the Property Tax Fairness Credit would restore balance, improve economic security for Mainers and help lift families and seniors out of poverty.