TAX REFORM AND MAR - RECAP

by MAR Legislative Counsel Linda Gifford – July 2009

Tax reform was considered again this year by the Maine Legislature, and eventually a version of the original bill passed. The original bill was LD 1088 and MAR took a 1 oppose position on it. It had the intention of reducing Maine's income tax rate from 8.5% to 6.5% (including capital gains, since Maine does not have a separate rate). So that was a good thing. But because the proposal had to be revenue neutral, the "pay-for" included things such as an expansion of the meals and lodging tax (from 7% to 8.5%), an expansion of the Real Estate Transfer Tax on primary residences including condos with a selling price of over $500,000 to $10.00 per thousand for that portion above $500,000, an expansion of the numbers and types of things subject to the sales tax of 5% (auto repairs for instance). On the income tax side, it wasn't just a reduction in rate, there also is a complete overhaul of the way taxes are calculated. In other words, if now you take a standard deduction at the federal level, you would get a standard credit on your Maine taxes. If you itemize at the federal level, you would get an itemized credit (not deduction) which is based on a percentage of the federal itemized deductions you get. And these credits only apply if you are a state of Maine resident. In addition, in case you have no income, you still get a credit (rebate check) if you are a resident of the state (designed to help you pay the extra sales taxes you will incur).

Our issue as an Association with these changes on the income tax side is that the credits phase out as the family income increases. The numbers are not known for sure, but the theory is that as you earn more, you are made better off by a lower income tax rate and so at some point you don't need the credits. The math may work? But the reality is that people buy homes to get mortgage interest deductions, and the higher earners buy more homes (and deduct mortgage interest, as well as real estate taxes, and health care premiums, and child care costs, and excise taxes on boats and cars, and charitable contributions). So we thought this would work as a disincentive for people to spend money for those purposes.

MAR was a member of a coalition of business groups opposed to the bill. The group was called "Not This, Now Now". MAR ran two full page ads against the bill. We set up a website. We met with the Governor several times about our concerns. We lobbied against the bill extensively. We ran EGAD requests for member calls. We participated in radio talk shows. In spite of our efforts (and efforts by many other groups), the bill passed. It passed in an entirely new version (LD 1495) which came out in the last days of the session, and was a version which the Governor put forth in order to sign the bill (versus veto it). The new version helped our industry with the Real Estate Transfer Tax (remains the same--$4.40 per $1000 no matter the price). It helped tourism (more money to advertise). It deleted several of the proposed new taxed items (e.g., skiing). It made a number of other changes but it kept the credit/deduction issue the same with the phase out for higher incomes. It also increased the income tax rate for incomes over $250,000 to 6.85% to pay for the items deleted such as the transfer tax.

MAR was very pleased with the elimination of the proposed increase in the transfer tax (thank you Governor Baldacci), but displeased with the loss of deductions and the loss of even the credits at the higher income levels. Many feel that the credit part of the bill is unconstitutional since it applies only to Maine residents, and non-residents are not eligible for any of the credits. Time will tell on that issue as to whether or not it is ever challenged.