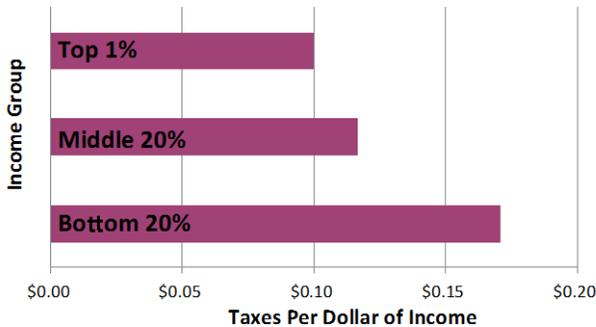


Making Maine's Tax System More Fair

Problem: Maine's tax system does not raise enough money to meet our society's basic needs. It is clear that wealthy people must do more to pay their fair share if everyone is to have what they need. The reason why low- and middle-income taxpayers pay more of their income in taxes than the wealthy is because sales taxes and property taxes are generally regressive.

The More You Earn, the Less You Pay Per Dollar

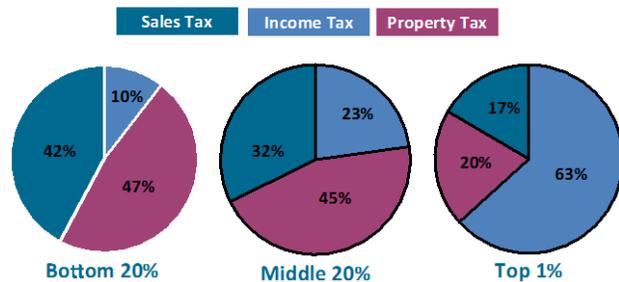
State and Local Taxes Per Dollar of Income, 2009



Maine Center for Economic Policy

Property and Sales Taxes Hit Low- and Middle-Income Mainers Hardest

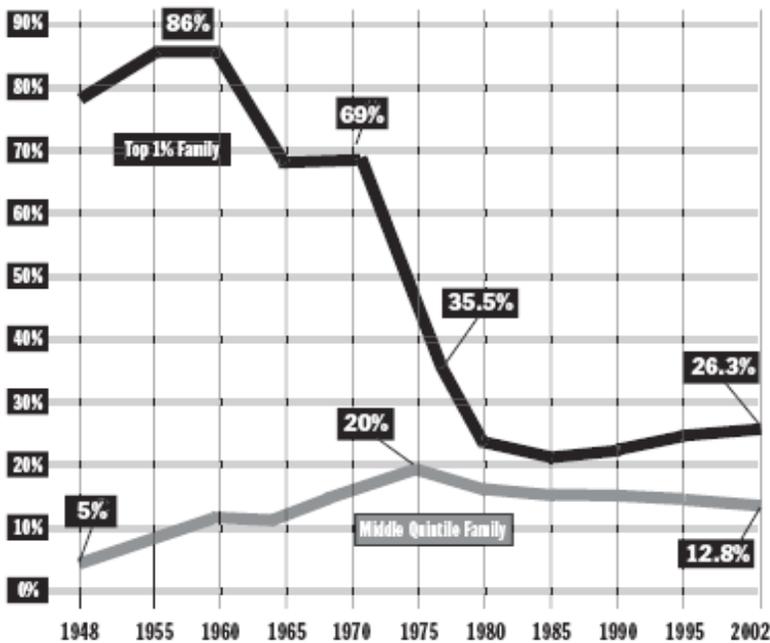
Composition of Total State and Local Tax Bills by Income Group



Maine Center for Economic Policy

RULE CHANGE Taxes: Big Tax Breaks for the Wealthy - No Tax Relief for Working Families

Effective federal tax rates (income tax + payroll tax) for the top 1% and the middle quintile of families, 1948-2002



Sources: For the Top 1%: 1948-77: Kevin Phillips, *Money and Power* (Random House: 1993) p. 110, citing *Statistical History of the United States*, U.S. Government Printing Office: 1978) p. 1111; 1979-2002: Congressional Budget Office, "Effective Federal Tax Rates: 1979-2002," April 2004. For 2002: CBO, "Historical Effective Federal Tax Rates: 1979-2002," March 2005. For the Middle Quintile Family: 1948: Phillips (1993) p. 110, citing *Statistical History of the United States* (1978), p. 1111, figure is for median family; 1950-70: Phillips (1993) p. 110, citing Alan Lerman, U.S. Department of the Treasury Office of Tax Analysis, figures are for median family; 1979-2002: Congressional Budget Office (top cit.) for 2002: CBO (top cit.). **Note:** Does not include corporate, excise or estate taxes.

The big picture: a massive tax shift.

Additionally, as the federal government cuts taxes to the wealthy, the cost of services is shifted to states, who too often shift it to towns. In Maine, this causes towns to rely heavily on property taxes, because they cannot raise revenue through progressive sources like income taxes. The graph to the left illustrates the dramatic decline of taxes the wealthy pay at the federal level. **In the face of federal inaction, states must step up to raise significant revenue from the wealthy, if the public is to have the resources it needs.**

As a result, Maine faces a "structural budget gap" of hundreds of millions of dollars. A "structural budget gap" is the gap between what revenues will likely come in during the next budget, and what our statutory funding commitments are. The biggest promise the state consistently breaks is the funding of K-12 education. Mainers passed by referendum a requirement that the state pay 55% of the cost of public education. Next budget, we are probably about \$250 million shy each year of meeting that commitment to our children.

Possible Solutions in Maine:

- **Repeal the LePage tax income cuts: \$342 million/ biennium.** According to Maine Revenue Services, a Mainer in the top 1% will an average tax break of \$2,810. Mainers in the bottom 20% will receive an average tax break of just \$7. There is no question that the Governor's tax cuts disproportionately benefit the wealthy.
- **Repeal the LePage estate tax cut: \$51 million/ biennium.** (Numbers come from the non-partisan Office of Fiscal and Policy Review.) The estate tax is the most progressive tax in Maine. Governor LePage increased the exemption amount from \$1 million to \$2 million, and made modifications in the rate structure. While we fully support the exemption going back to \$1 million, we also would like to explore modifying the rate structure to raise an equivalent amount of money.
- **Target sales tax to tourists.** In the last biennial budget, the legislature temporarily increased the general sales tax, as well as the taxes on meals and lodging. If we permanently increased our meals tax to 10%, that would raise about **\$180 million/ biennium**. This could help fix our structural gap. It could also help lower our overall sales tax rate.
- **Tax Expenditures.** According to Maine Revenue Services, Maine gives away hundreds of millions of dollars each year in tax exemptions and tax expenditure programs. Although tax expenditure programs tend to get the most attention (like the Business Equipment Tax Reimbursement), tax exemptions, particularly of services, tend to be much larger programs. Originally our sales tax system was designed at a time when most people spent their income purchasing goods. Now, people purchase a far greater portion of services. For example, the state foregoes over \$300 million a year by not taxing finance, insurance, and real estate services. For example, just taxing portfolio management services would raise \$25.9 million, according to Maine Revenue Services.

Links to more information:

- The most recent (2013) report on business tax programs:
http://www.maine.gov/revenue/research/edic_rep13.pdf
- The most recent tax expenditure report (2014-15):
http://www.maine.gov/revenue/research/tax_expenditure_report_13.pdf
- Maine Center for Economic Policy report on budget problems being driven by tax cuts and the recession:
<http://www.mecep.org/view.asp?news=2323>
- Center on Budget and Policy Priorities review of research that demonstrates tax flight is a myth:
<http://www.cbpp.org/cms/index.cfm?fa=view&id=3556>
- Why sales tax increases are not the way to address revenue volatility:
<http://www.cbpp.org/cms/?fa=view&id=3954>