

PLEASE NOTE: Legislative Information **cannot** perform research, provide legal advice, or interpret Maine law. For legal assistance, please contact a qualified attorney.

An Act To Create an Income Tax Stabilization Program

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 36 MRSA §5111-C is enacted to read:

§ 5111-C. Revenue targeting

1. Definitions. As used in this section, unless the context otherwise indicates, the following terms have the following meanings.

A. "Adjustment factor" means a number applicable to a tax year determined by dividing the target revenue for the numerically identical fiscal year by the tax revenue for that fiscal year, rounded to the nearest 1/1,000.

B. "Target revenue" means \$1,400,000,000 for fiscal year 2007-08 and for subsequent fiscal years.

C. "Tax revenue" means undedicated General Fund individual income tax revenue arising pursuant to this Part.

2. Rate adjustment. Annually, by September 15th, the State Tax Assessor shall determine for the current tax year whether tax revenue for the fiscal year ending the prior June 30th exceeded the target revenue. If target revenue was exceeded, the State Tax Assessor shall adjust the tax rates as specified in the tax rate tables in section 5111, as adjusted for the prior tax year pursuant to this section, by multiplying the percentage rates by the current tax year's adjustment factor. The State Tax Assessor may not adjust the rates for single individuals and married persons filing separate returns with taxable income of \$30,000 or more; for unmarried individuals or legally separated individuals who qualify as heads of households with taxable income of \$45,000 or more; and for individuals filing married joint returns or surviving spouses permitted to file a joint return with taxable income of \$60,000 or more.

3. Revenue Targeting Fund. The Revenue Targeting Fund is established to carry out the purposes of this section. For fiscal year 2007-08 and for each subsequent fiscal year up to and including the fiscal year ending during the calendar tax year in which the limitation pursuant to subsection 4 is reached, tax revenue exceeding \$1,400,000,000 must be deposited to the Revenue Targeting Fund, the balance of which does not lapse but carries to the subsequent fiscal year. Tax year 2008 and subsequent tax year individual income tax refunds must be paid from this fund until the fund balance carried forward from the prior fiscal year is reduced to zero.

4. Limitation. The cumulative rate reduction attributable to this section may not exceed 20% of the tax year 2007 rates.

5. Rounding. Adjustments in tax rates arising pursuant to this section are rounded to the nearest 1/10 of a percent, and the total dollar amount of the tax on taxable income equal to the lower limit of the income brackets is rounded to the nearest dollar.

SUMMARY

This bill proposes to stabilize individual income tax receipts until a reduction of 20% is achieved in the future. The bill provides a mechanism to reduce individual income tax rates periodically until they are 20% less than the 2007 rates, without reducing the anticipated receipt of revenue.

The mechanism to achieve the periodic reductions is an adjustment factor using the current income tax revenue target for fiscal year 2007-08 of \$1,400,000,000. A comparison of the actual fiscal year revenue excess to the target amount provides the measure by which tax rates are to be adjusted downward for the tax year. This process repeats itself annually until the cumulative 20% reduction is reached.