

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 Reduce the Income Tax

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

**Sec. 1. 5 MRSA §1518-A, sub-§1**, as enacted by PL 2005, c. 2, Pt. A, §4 and affected by §14, is amended to read:

**1. Tax Relief Fund for Maine Residents.** There is created the Tax Relief Fund for Maine Residents, referred to in this section as "the fund," which must be used to provide tax relief to residents of the State as provided in subsection 3. The fund consists of all resources transferred to the fund under section 1536 and other resources made available to the fund.

**Sec. 2. 5 MRSA §1518-A, sub-§3** is enacted to read:

**3. Income tax reduction relief.** At the close of each fiscal year, the State Controller shall certify to the State Tax Assessor the amount transferred to the fund and available for tax relief. The assessor shall use the fund for the following purposes:

A. Fifty percent of the funds available must be used to lower the rates of income tax imposed pursuant to Title 36, section 5111, subsections 1-B, 2-B and 3-B; and

B. Fifty percent of the funds available must be used to increase the percentage of the federal earned income tax credit allowed as a credit against state income taxes pursuant to Title 36, section 5219-S.

The assessor shall annually determine the new rates established pursuant to paragraph A and the new percentage of the federal earned income tax credit established pursuant to paragraph B and report to the joint standing committee of the Legislature having jurisdiction over taxation matters. The rates and percentage are effective for the immediately succeeding tax year only.

If there are insufficient funds to decrease the income tax rates by at least one quarter of a percentage point each and increase the percentage of the earned income tax credit by 5 percentage points, then the assessor may not make the adjustments required pursuant to this subsection.

**Sec. 3. 36 MRSA §5111, first ¶**, as amended by PL 1999, c. 731, Pt. T, §1, is further amended to read:

A tax is imposed for each taxable year beginning on or after January 1, 2000, on the Maine taxable income of every resident individual of this State. The amount of the tax is determined as provided in this section and Title 5, section 1518-A, subsection 3.

**Sec. 4. 36 MRSA §5219-S**, as amended by PL 2003, c. 20, Pt. GG, §1, is further amended to read:

### § 5219-S. Earned income credit

A taxpayer is allowed a credit against the taxes otherwise due under this Part equal to 5% of the federal earned income credit for the same taxable year, except that for tax years beginning in 2003, 2004 and 2005, the applicable percentage is 4.92% instead of 5% and for tax years beginning on or after January 1, 2008, the applicable percentage is as adjusted pursuant to Title 5, section 1518-A, subsection 3. The credit may not reduce the state income tax to less than zero.

**Sec. 5. Application.** This Act applies to tax years beginning on or after January 1, 2008.

## SUMMARY

Current law caps the amount of General Fund revenue that may be transferred to the Maine Budget Stabilization Fund at 12% of total General Fund revenues in the immediately preceding state fiscal year; any amount over 12% is required to be transferred to the Tax Relief Fund for Maine Residents and used to provide tax relief to residents of the State.

This bill specifies how the Tax Relief Fund for Maine Residents is to be used to provide tax relief. It requires the State Tax Assessor to annually adjust the income tax rates and nontaxable income amount using funds in the Tax Relief Fund for Maine Residents. The bill specifies that 50% of the revenue is to be used to decrease individual income tax rates and 50% is to be used to increase the earned income tax credit. The new rates and credit would be applicable for the immediately succeeding tax year only. If insufficient funds exist to decrease the tax rates by at least one quarter of a percentage point each and increase the earned income tax credit by 5 percentage points, then the assessor is prohibited from making any adjustment for that year.