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An Act To Provide Tax Relief for Maine's Citizens by Reducing Income Taxes

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. The fund consists of all resources transferred to the fund under section 1518-B and section 1536 and other resources made available to the fund. The fund must be used in the order of the following.

A. As the first priority, amounts in the fund must be used to increase the individual income tax bracket threshold amounts under Title 36, section 5111 until the bracket thresholds are 20% higher than those in effect for tax years beginning in 2011.

B. As the 2nd priority, after the increase in bracket thresholds required under paragraph A has been achieved, amounts in the fund must be used to reduce the highest individual income tax rate until it reaches 6.5%.

Sec. 2. 5 MRSA §1518-A, sub-§1-A is enacted to read:

1-A. Implementation. By September 15, 2011 and annually thereafter, the State Controller shall inform the State Tax Assessor of the amount available in the fund for the purposes of subsection 1.

A. By November 1st annually the State Tax Assessor shall use the amount in the fund identified by the State Controller to calculate new individual income tax bracket thresholds under subsection 1, paragraph A, by proportional increases in each bracket until the thresholds are 20% higher than the bracket thresholds in effect for tax years beginning on or after January 1, 2011.

B. After bracket thresholds have reached the amounts required under subsection 1, paragraph A, by November 1st annually, the State Tax Assessor shall calculate the amount by which the highest income tax rate under Title 36, section 5111 may be reduced. Bracket rate reductions must be 0.2% in the first year in which reductions are made and 0.1% in subsequent years. If sufficient funds are not available to pay for the minimum reduction, a rate reduction may not be made until the amount in the fund is sufficient to pay for the reduction. When the 8.5% bracket under Title 36, section 5111 has been reduced to 7%, the 2 highest brackets for all categories under Title 36, section 5111 must be combined into one bracket. Future annual rate reductions must be calculated until the tax rate for the highest bracket is 6.5%.

C. The assessor shall provide public notice of new bracket thresholds and rates calculated under this subsection by November 15th annually.

D. New bracket thresholds and rates take effect beginning with tax years that begin on or after January 1st of the calendar year following the determinations made under this subsection.

Sec. 3. 5 MRSA §1518-B is enacted to read:

§ 1518-B. Tax reduction from General Fund revenue growth

Beginning with fiscal year 2011-12, and before any other transfers from the General Fund, the State Controller shall transfer at the close of each fiscal year to the Tax Relief Fund for Maine Residents, established under section 1518-A, 30% of the amount by which General Fund revenue for the fiscal year being closed exceeds the General Fund appropriation limitation calculated for that year under section 1534.

Sec. 4. 5 MRSA §1536, sub-§1, as amended by PL 2005, c. 519, Pt. VV, §4, is further amended to read:

1. Third priority reserve. The State Controller shall, as the 3rd priority after the transfers to the State Contingent Account pursuant to section 1507 and the transfers to the Loan Insurance Reserve pursuant to section 1511 at the close of each fiscal year, transfer 20% of the amount from the unappropriated surplus of the General Fund ~~an amount equal to the amount available from the unappropriated surplus~~ to the Tax Relief Fund for Maine Residents established in section 1518-A. The remaining amount of unappropriated surplus of the General Fund, after all required deductions of appropriations, budgeted financial commitments and adjustments considered necessary by the State Controller have been made, must be distributed as follows:

- A. Thirty-five percent to the stabilization fund;
- B. Twenty percent to the Retirement Allowance Fund established in section 17251;
- C. Twenty percent to the Reserve for General Fund Operating Capital;
- D. Fifteen percent to the Retiree Health Insurance Internal Service Fund established in section 1519 to be used solely for the purpose of amortizing the unfunded actuarial liability associated with future health benefits; and
- E. Ten percent to the Capital Construction and Improvements Reserve Fund established in section 1516-A.

SUMMARY

This bill provides tax relief for Maine's citizens by reducing income taxes paid by Maine citizens. The bill requires that revenue exceeding the General Fund appropriation limitation and unappropriated surplus of the General Fund be used to gradually increase by 20% the income bracket thresholds at which higher income tax rates apply and to reduce the highest income tax rates from 8.5% and 7% to 6.5%.