TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *Wednesday, May 17*

LD *1866 –* "*An Act to Establish 5 New Tax Brackets and a Surcharge for Higher Income Levels*"

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good morning, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD *1866*, "*An Act to Establish 5 New Tax Brackets and a Surcharge for Higher Income Levels.*"

For tax years beginning on or after January 1, 2023, the bill expands the current three individual income tax rate brackets (5.8%, 6.75%, 7.15%) to eight tax rate brackets (one bracket at 4.5%; one bracket at 6.75%; two brackets at 7.15%; four brackets at 8.75%). The bill also imposes an income tax surcharge if Maine taxable income is $1 million or more for single individuals and married persons filing separate returns, $1.5 million or more for individuals filing as heads of households, and $2 million or more for married individuals filing jointly or as a surviving spouse. The tax surcharge is 3% of the tax otherwise imposed by 36 M.R.S. § 5111, except that it is 6% if Maine taxable income is $10 million or more for single individuals and married persons filing separate returns, $15 million or more for individuals filing as heads of households, and $20 million or more for married individuals filing jointly or as a surviving spouse.

Maine has the 9th highest top marginal tax rate in the country. A top marginal tax rate of 8.75% would tie Maine at the 7th highest top marginal tax rate with Vermont. Including the surtax, a tax rate of 14.75% would be the highest in the country. The Administration opposes this tax increase.

The Administration also notes the following administrative and technical concerns:

- The tax increase would have an adverse effect on existing 2023 withholding tables and estimated tax forms and instructions currently being used. Even if the proposal were emergency legislation, it would be difficult for MRS, employers, payroll processors, producers of tax software, tax preparers, and individuals to respond to the proposed changes for tax years beginning in 2023. It would be more feasible to implement the changes if the bill applied to tax years beginning on or after January 1, 2024.
- Sections 2, 4, and 6 of the bill should be amended to collapse the two 7.15% tax rate brackets into one 7.15% tax rate bracket and the four 8.75% tax rate brackets into one 8.75% tax rate bracket.
- The bill should be amended to coordinate Sections 2, 4, 6, and 7 with the annual inflation adjustment under 36 M.R.S. § 5403.
- The tax dollar amounts in fifth, sixth, seventh, and eight tax rate brackets in Sections 4 and 6 of the bill are mathematically incorrect.
- It is unclear if the surcharge is to be applied to the taxable income of estates and trusts (36 M.R.S. § 5160).

The estimated revenue impact of the bill is not currently available.

If the bill is amended to apply to tax years beginning on or after January 1, 2024, the estimated administrative costs would be nominal and could be absorbed by the Bureau. However, the Bureau would incur significant administrative costs if the bill is not amended; those administrative costs have not yet been determined.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.