

**TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *February 27, 2025*

*LD 229 – “An Act to Bring Fairness in Income Taxes to Maine Families by
Adjusting the Tax Brackets and Tax Rates”*

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon, 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 229, “*An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets and Tax Rates.*”

For tax years beginning on or after January 1, 2026, the bill changes the current income tax brackets by increasing the threshold amount of income subject to the current tax rates of 5.8%, 6.75%, and 7.15% and adds three new income tax rate brackets of 7.52%, 7.15%, and 8.2%. The tax rate brackets are to be adjusted for inflation under 36 M.R.S. § 5403 starting with tax years beginning in 2026. Attached to my testimony is a chart that shows the proposed income tax rate brackets and the existing income tax rate brackets. (Note that the tax rate brackets for single individuals and married persons filing separately also apply to the taxable income of estates and trusts under 36 M.R.S. § 5160.)

This bill is nearly identical to LD 1231, as amended by Committee Amendment A. LD 1231 was vetoed by Governor Janet Mills and the veto was sustained by the Legislature. The Administration opposes the bill before you today for many of the same reasons the Governor vetoed LD 1231.

In her veto message of LD 1231, the Governor criticized the bill as not providing meaningful tax relief. A criticism that applies to this bill as well. Low-income taxpayers would receive very little or no actual benefit from the proposal due to the State's many available deductions, credits, and exemptions as well as the size of the existing 5.8 percent tax bracket. Instead, the bill would shift the tax burden from middle- and high-income taxpayers to the highest-income taxpayers.

While progressive income tax rate structures serve an important role in creating a fair and balanced state tax structure it is important to consider where the State's currently falls in the broader context of state taxes. A recent report by the Institute on Taxation and Economic Policy ranked Maine as one of the most progressive states in the country, with only five states being ranked as more progressive. This is in part due to the recent expansions of Maine's income tax credits specifically aimed at helping low-income Mainers.

Maine's highest income tax rate of 7.15 percent is the 10th highest state income tax rate in the country, and there are concerns that increasing that top rate even further would create challenges for state budgeting, because it would increase the State's reliance on a small number of taxpayers (less than 1 percent) whose income is disproportionately composed of highly volatile sources such as capital gains and business income. Income tax revenue, which already varies significantly year-to-year, would become more volatile and likely more closely tied to economic conditions, increasing the challenge of managing the State's fiscal position and the size of a revenue shortfall during an economic downturn.

The preliminary fiscal impact is estimated to be as close to revenue neutral as possible.

The preliminary estimated administrative costs are nominal and can be absorbed within current budgetary allotments.

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.

LD 0229 – Proposed Income Tax Rate Brackets (beginning with tax year 2026)						
	Applicable tax rate:					
	5.8%	6.75%	7.15%	7.52%	7.15%	8.2%
Taxable Income >						
Single	0	41,600	85,000	144,500	205,000	500,000
Head of Household	0	62,400	127,500	216,750	307,500	750,000
Married Joint	0	83,200	170,000	289,000	410,000	1,000,000

Current Income Tax Rate Brackets (for tax year 2025)			
	Applicable tax rate:		
	5.8%	6.75%	7.15%
Taxable Income >			
Single	0	26,800	63,450
Head of Household	0	40,200	95,150
Married Joint	0	53,600	126,900