



## **Testimony in Support of LD 671:**

**"An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget"**

Senator Grohoski, Representative Cloutier, and the distinguished members of the Committee on Taxation, my name is Harris Van Pate and I serve as policy analyst for Maine Policy Institute. Maine Policy is a free market think tank, a nonpartisan, non-profit organization that advocates for individual liberty and economic freedom in Maine. Thank you for the opportunity to submit testimony in support of LD 671, "An Act to Abolish the Maine Income Tax and Establish a Zero-Based Budget."

### **Eliminating the State Income Tax: A Proven Path to Growth**

Maine's personal income tax hampers economic growth, accelerates out-migration, and places our state at a competitive disadvantage. Despite recent efforts to reduce Maine's income tax burden, our top marginal rate of 7.15% remains among the highest in the nation, currently ranking 10th among states that levy an income tax.<sup>1</sup> This excessive tax burden discourages work, investment, and entrepreneurship, all of which are crucial for economic vitality.

Nine states—including our neighbor New Hampshire—already thrive without a state tax on earned income (Washington taxes only capital gains over \$250,000).<sup>2</sup> Research consistently shows that states without an income tax experience higher population growth,<sup>3</sup> and stronger job creation<sup>4</sup> compared to states with high income tax burdens. A study by economists Arthur Laffer and Stephen Moore found that states without an income tax outperformed states with the highest income taxes in 10-year personal income growth rates for every year between 1971 and 2011, which is when their analysis ended.<sup>5</sup> In effect, people in every state without an income tax had more income growth than those in high-tax states every year for forty years.

Furthermore, the 2025 Tax Foundation analysis indicates that, except for Washington, every state without a state income tax outranks Maine regarding tax competitiveness, with even the lowest-ranked state, Nevada, being twelve spots above Maine. New Hampshire, which has no state income tax, is ranked sixth in the nation for tax

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<sup>1</sup> <https://taxfoundation.org/data/all/state/state-income-tax-rates/>

<sup>2</sup> Id.

<sup>3</sup>

<https://www.businessinsider.com/personal-finance/taxes/states-with-no-income-tax-map#:~:text=Texas%20and%20Florida%20have%20seen,pockets%20%E2%80%94%20and%20simplifying%20tax%20season.>

<sup>4</sup> <https://www.heritage.org/taxes/commentary/low-tax-states-create-more-jobs-high-tax-states>

<sup>5</sup>

<https://www.laffercenter.org/wp-content/uploads/2020/04/2012-09-TaxesDoMatterLookAtStates-LafferCenter-Laffer-Moore.pdf>



competitiveness, with no other state in New England coming within 20 places of it. By abolishing our income tax, Maine can stem the outflow of residents and capital that currently benefit low-tax states, New Hampshire in particular.<sup>6</sup>

## **Zero-Based Budgeting: A Responsible Approach to Fiscal Management**

In addition to eliminating the state income tax, LD 671 would implement zero-based budgeting (ZBB), a commonsense approach that ensures taxpayer dollars are spent efficiently and effectively. Unlike traditional budgeting, which simply adjusts previous spending levels, ZBB requires agencies to justify every dollar requested, eliminating unnecessary or wasteful expenditures.

Zero-based budgeting has been successfully implemented in states like Texas and Georgia, leading to cost savings, improved efficiency, and greater fiscal accountability.<sup>7</sup> Given Maine's historical reliance on high tax burdens to fund ever-expanding government spending, transitioning to a ZBB approach would ensure prudent fiscal management and provide a sustainable pathway for eliminating the income tax without jeopardizing essential services.

## **Addressing Revenue Concerns**

Critics argue that abolishing the income tax would create a revenue shortfall. However, evidence from other states suggests otherwise. Texas and Florida, which have no income tax, have successfully funded essential services through sales tax revenues, business taxes, and disciplined spending. Maine can adopt a similar model by broadening the tax base, reducing corporate welfare, and focusing on economic expansion to generate revenue organically.

Additionally, eliminating the income tax would stimulate economic growth, increasing revenue from other sources, such as sales and property taxes, as more individuals and businesses move to Maine. A dynamic economic model, rather than an overreliance on high income tax rates, is the key to sustainable prosperity.

## **Conclusion**

LD 671 presents a transformative opportunity for Maine to usher in a new era of economic competitiveness and fiscal responsibility. By eliminating the state income tax and implementing zero-based budgeting, we can create an environment that attracts

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<sup>6</sup> <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/>

<sup>7</sup> <https://www.texaspolicy.com/wp-content/uploads/2018/08/Zero-based-Budgeting.pdf>



businesses, encourages investment, and allows hardworking Mainers to keep more of their earnings.

The choice is clear: continue with the status quo, watch businesses and families leave for lower-tax states, or take bold action to make Maine a pro-growth, pro-opportunity state. We urge the committee to support LD 671 and take a crucial step toward ensuring Maine's long-term economic success. Thank you for your time and consideration.