

**TESTIMONY OF
CHASE HEWITT, STAFF ATTORNEY, OFFICE OF TAX POLICY
MAINE REVENUE SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *May 3, 2023, at 1:30pm*

LD 1231 – *“An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets”*

LD 1434 – *“An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget”*

LD 1638 – *“An Act to Lower the State's Individual Income Tax”*

LD 1651 – *“An Act to Reduce the State Income Tax”*

LD 1671 – *“An Act to Reduce the Income Tax to 4.5 Percent on the Lowest Tax Bracket and Remove Low-income Families from Taxation”*

Senator Grohoski, Representative Perry, 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 Neither For Nor Against LD 1231 – *“An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets;”* and LD 1651 – *“An Act to Reduce the State Income Tax;”* and Against LD 1434 – *“An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget;”* LD 1638 – *“An Act to Lower the State's Individual Income Tax;”* and LD 1671 – *“An Act to Reduce the Income Tax to 4.5 Percent on the Lowest Tax Bracket and Remove Low-income Families from Taxation.”*

The Administration opposes these bills because they propose significant reductions in income tax, some even proposing to abolish the income tax altogether, without consideration of the impact of those cuts on the services offered by the State of Maine and the people who rely on those services.

The individual and corporate income taxes are an important part of Maine's tax structure. They prevent overreliance on revenue from property and sales and use taxes, add progressivity to the overall State tax system, and serve as a delivery mechanism for many important refundable credits, including the Earned Income Tax Credit, the Property Tax Fairness Credit, the Sales Tax Fairness Credit, and the Dependent Care Tax Credit.

Turning now to more technical concerns with the specific bills, starting with LD 1434, the Administration notes that clarification is needed regarding the applicability of this proposal to the franchise tax, the date which the report would be due, whether refundable tax credits continue to apply, and whether taxpayers with no tax liability continue to be required to file income tax returns.

The estimated revenue impact of the bill is a revenue loss of over \$2.5 billion annually. The estimated administrative costs are nominal and can be absorbed by the Bureau. However, any reduction in the Agency's budget, as required by the bill, would significantly impair the ability of the Division to timely process income tax returns and issue applicable refunds.

LD 1638 and 1671 contain significant technical concerns relating to the calculation of the tax due and the application of inflation adjustments, and administrative and compliance concerns regarding the application of the tax changes to tax year 2023.

If the bills are 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 bills are not amended; those administrative costs have not yet been determined. The revenue impact of LD 1638 is not available at this time. LD 1671 would result in a revenue loss of approximately \$200 million per year.

Due to LD 1231 and 1651 being concept drafts, the Administration would need time to review any proposed language before offering additional testimony.

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.