

Testimony in Support of LD 457, An Act to Amend Maine's Tax Laws, Sponsored by Rep. Ben Chipman

2/20/24

Sen. Grohoski, Rep. Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I'm an analyst at the Maine Center for Economic Policy. I'm here to testify in support of LD 457 as amended. The sponsor's amendment to LD 457 would help reshape who benefits most from Maine's pension deduction, giving the greatest benefits to single Mainers making under \$97,150 and those married filing jointly making under \$194,300 by phasing the benefit out for higher earners, and reclaiming the difference to help pay for cost of living adjustment for the first \$40,000 of retirement benefits for retired state employees and teachers. Despite the increased cost of living, benefits for retired state employees and teachers have not kept up with inflation.

The Institute on Taxation and Economic Policy estimates the tax impact of this change to be \$45 million, with 96 percent of the change paid by taxpayers in the top 20 percent. Those with retirement benefits up to \$84,200 would see little to no change in their taxes paid due to this measure.

Fiscal Impact of Pension Deduction Phase Out

<i>Income distribution</i>	Bottom 20%	Second 20%	Third 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
<i>Income range (start)</i>	\$0	\$26,600	\$51,200	\$84,200	\$137,500	\$260,800	\$691,500
<i>% with Tax Increase</i>	0%	0%	0%	5.61%	13.94%	39.75%	30.75%
<i>Increase as % of Income for Those with Increase</i>	0%	0%	0%	0.20%	0.43%	0.60%	0.11%
<i>Avg. Tax Increase for Those with Increase</i>	\$0	\$0	\$0	\$228	\$830	\$2,095	\$1,872

Source: Institute on Taxation and Economic Policy

Last session, the Legislature expanded the pension benefit deduction to exempt the first \$50,000 of benefits from taxation. This expansion provides the greatest benefit to households in the top 20 percent while Mainers with the lowest incomes receive no benefit because of Maine's other generous targeted benefits for older Mainers (including a high

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standard deduction and personal exemption, exempting social security income from taxation, and property tax fairness credit).

This bill would help address the issue of inequity and economic security for retired state employees and teachers in Maine who have dedicated their lives to public service. They deserve dignity in retirement, and meeting our commitment to provide a cost of living increase through this tax change would help support it.

Thank you for your time and I would be happy to answer any questions.

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