131st Legislature
Senate of Maine
Senate District 28

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Testimony of Senator Ben Chipman introducing
LD 457, "An Act to Amend Maine's Tax Laws"
Before the Joint Standing Committee on Taxation
February 20, 2024

Senator Grohoski, Representative Perry, and esteemed members of the Joint Standing Committee on Taxation, I am Senator Ben Chipman, proudly representing Senate District 28, which includes parts of Portland. Today, I'm here to introduce LD 457, "An Act to Amend Maine's Tax Laws." Language for this bill has been fully drafted and was distributed to the committee and interested parties last week.

LD 457 acknowledges the financial challenges faced by retired teachers and state employees who endured pension cuts in 2011. The legislation includes provisions for a one-time cost-of-living adjustment (COLA) to their pensions, providing much-needed relief to retirees grappling with rising costs and economic challenges.

We cannot overlook the profound impact of pension cuts on retired educators and public servants. Over the past decade, an average retired teacher with a $30,000 pension has suffered a staggering $37,000 loss in income due to inadequate adjustments for inflation. That's like losing an entire year's salary. LD 457 seeks to rectify this injustice, honoring the dedication and sacrifices of our state's retired workers.

LD 457 also addresses the pressing need to adjust the pension deduction by income, ensuring a fair distribution of tax benefits across income thresholds. This adjustment aligns with our commitments to providing more significant tax relief to lower-income individuals and targeting benefits to those who need them most. The bill also includes provisions to phase out the pension deduction amounts based on income, mirroring the process for standard deductions.

It is important to note that the majority of pension earners will continue to receive the full benefit established in the biennial budget. However, LD 457 recognizes the necessity of recalibrating the pension deduction to reflect income levels accurately. As we anticipate the full implementation of the increased pension deduction, projected to cost $48 million annually by 2026, we must ensure that taxpayer resources are allocated judiciously, benefiting those most in need.

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Adjusting the increased pension deduction to the same phase out used for the standard deduction will save between $20-$45 million. This will cover most or all of the cost of the changes made in the budget last year, allowing us to make the changes permanent in the long term.

In conclusion, LD 457 embodies our collective responsibility to safeguard the financial security of Maine's retirees and ensure equitable tax policies. By implementing adjustments to the pension deduction and providing a one-time COLA adjustment, we can support those who have dedicated their careers to serving our communities.

Thank you for your consideration, and I'm happy to answer any questions you may have.

Sincerely,

Ben

Ben Chipman
State Senator, Senate District 28
Representing part of Portland

LD 457
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Amend the bill by striking everything after the enacting clause and substituting the following:

Sec. 1. 36 MRSA §~~5211~~ 5122, sub-§2, ¶M-2 is further amended in subparagraph (2), by adding division (g) to read:

> (g) For tax years beginning on or after January 1, 2025, the pension deduction amounts provided for a taxpayer in division (d) are phased out in the same manner as standard deductions are phased out under section 5124-C, subsection 2 with the pension deduction amount being phased out using the same formula that applies to the standard deduction.

Sec. 2. 5 MRSA §17806, sub-§1, ¶A is amended to read:

> A. Except as provided in paragraphs A-1, A-2, ~~and~~ A-3 and A-4, whenever there is a percentage increase in the Consumer Price Index from July 1st to June 30th, the board shall automatically make an equal percentage increase in retirement benefits, beginning in September, up to a maximum annual increase of 3%. Effective July 1, 2011, the increase applies to that portion of the retirement benefit up to $20,000, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section. Effective July 1, 2022, the increase applies to that portion of the retirement benefit up to $24,186.25, which amount must be indexed in subsequent years by the same percentage adjustments granted under this section.

Sec. 3. 5 MRSA §17806, sub-§1, ¶A-4 is enacted to read:

A-4. For cost-of-living adjustments awarded in fiscal year 2024-2025 only, the increase applies to that portion of the retirement benefit up to $40,000.

Summary

This amendment replaces the bill and establishes a phaseout of the pension deduction under the income tax in the same manner as the standard deduction based on the income of the taxpayer.

This amendment also provides that for the cost-of-living adjustment awarded to retired state employees and teachers and their beneficiaries in fiscal year 2024-2025 only, which is paid in September 2024, the adjustment applies to the first $40,000 of the retirement benefit. Effective July 1, 2025, the increase applies to the portion that otherwise would have been in effect absent this one-time change.