
Testimony in Opposition to LD 856, An Act to Phase Out the Income Tax

March 12, 2025

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying in opposition to LD 856.

LD 856 would phase out the state income tax by 20% a year over a period of five years beginning in 2026 with the tax fully eliminated by 2030. The bill also requires the state budget to be cut by an amount equivalent to income tax revenue.

As we have testified previously, abolishing Maine's income tax would have extensive and harmful impacts on the ability of the Legislature to meet its commitments to Maine people. Maine personal income taxes are the largest state-level source of revenue. In fiscal year 2023, Maine personal income taxes totaled almost \$2.5 billion and accounted for 43% of general fund revenues.ⁱ Everything the state funds, from education to health care to municipal revenue sharing to important supports like child care, housing, and substance use recovery would be put in jeopardy by this proposal. In short, every one of our communities would be negatively impacted if Maine eliminates the income tax.

It would also result in a tax system that is less fair for low- and middle-income households who would likely see higher sales and property taxes to make up for this lost revenue. Maine's income tax is the state's primary progressive tax, meaning it is based on ability to pay. It achieves this by taxing higher amounts of income at higher rates. Other taxes, including the sales and property taxes are regressive, meaning those with lower incomes pay a greater share of their income in these taxes. Eliminating the income tax would hurt those in Maine who can least afford it.

Further, requiring the budget to decrease by an amount equivalent to the income tax is not a decision that should be legislated, but rather should take place through the Legislature's regular budget process.

If the Committee wishes to pursue tax cuts that address the needs of Mainers, MECEP believes increasing the earned income tax credit, child tax credit, and property tax fairness credit are better options to support working Mainers and families with low- and middle-income.

In a budget shortfall environment, the income tax is the first place the Legislature should be looking to raise revenue, not to eliminate it. We ask the Committee to reject this proposal and the harmful effects it would have on the people of Maine.

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