Maine Center for Economic Policy

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Testimony in Support of LD 1089, An Act to Permanently Fund 55 Percent of the State's Share of Education by Establishing a Tax on Incomes of More than $1,000,000

3/26/25

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a policy analyst at Maine Center for Economic Policy. We are testifying in support of LD 1089.

LD 1089 would create a 4% surcharge on incomes over $1 million and dedicate the funding to public prek-12 education. This additional percentage would only apply to income over $1 million. Income below $1 million would continue to fall under existing tax brackets.

Maine is at a crossroads. This year, the Legislature must make important decisions about what kind of state we want to be. Do we want to be a state that embraces policies that help ensure everyone can thrive, or that continue to perpetuate the status quo? Do we want to be able to fund important programs for hard working Mainers and create opportunities for the people of Maine, or are we the kind of state that breaks our promises to fund important things like child care, COLAs, or MaineCare reimbursements?

If we want to be a state where everyone has the opportunity to thrive, we need everyone to pay their fair share. But the gap between Mainers at the top and those who are barely getting by continues to widen. We must fix our state tax code so everyone has a fair chance at a good life. Currently, the top income tax rate is the same regardless of whether you are a millionaire or a teacher. This is not fair. Top earners should not have lower effective tax rates than the rest of the state.

During testimony in opposition to this bill, you will hear exaggerated claims that do not have data to back them up. I would like to address these.

- **Research shows migration due to state taxes is exaggerated.** A study by the Center on Budget and Policy Priorities[i] examined tax migration data and found state taxes have a minimal impact on interstate moves. Most people move due to factors related to jobs or family. The next most common reasons are to find less expensive housing and for retirees, moving to a warmer, snow-free climate. CBPP finds there has been a "notable trend of migration to coastal states like Maine...that appear to be largely driven by growing tastes for an outdoors-oriented lifestyle." A state that makes investments in its schools and communities will *attract* people, not deter them from moving here.

- **Millionaire's taxes didn't harm other states where they were enacted.** CBPP examined other states that enacted millionaire's taxes to determine the impact it had on their economies, and found 6 out 8 of them (including Washington DC) had economic growth that equaled or exceeded neighboring states. [ii] Further, they found most academic research finds that state-level economic growth is not closely tied to state-level tax policy because there are so many other factors at play that have a larger role in influencing the state economy. Other investments, like education and highway spending have stronger effects on economic growth.

- **A millionaire's tax will not hurt small businesses.** According to IRS data, only 3% of pass-through entities in Maine have annual income of over $1 million. Most small businesses don't make over $1 million a year, and not all pass-through entities are small businesses. Small businesses benefit from public investments in education and infrastructure that will help them succeed.

- **Revenue from a millionaire's tax could be volatile, but the state can plan for that.** Some of Maine's existing revenue streams are volatile, which is why we have a revenue forecast and rainy day fund as a backstop. Having more diverse revenue streams would help the state, not hurt it. During times of economic downturn, those with wealth usually fare better than everyone else, not worse.

Maine faces a choice between cutting vital programs and raising more revenue. We urge the committee to do the latter, and ask more from those who have the most.

Thank you for your time. I would be happy to answer any questions.
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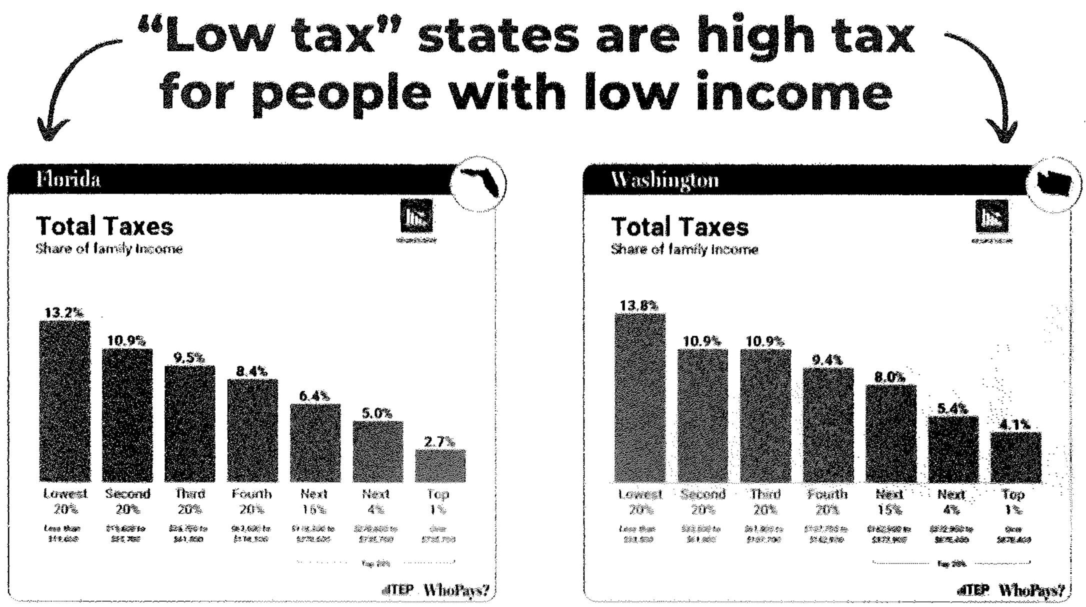
[i] Mazerov, Michael. "State Taxes Have a Minimal Impact on People's Interstate Moves." Center on Budget and Policy Priorities. 9 Aug 2023 https://www.cbpp.org/research/state-budget-and-tax/state-taxes-have-a-minimal-impact-on-peoples-interstate-moves

[ii] Tharpe, Wesley. "Raising State Income Tax Rates at the Top a Sensible Way to Fund Key Investments." Center on Budget and Policy Priorities. 7 Feb 2019. https://www.cbpp.org/research/state-budget-and-tax/raising-state-income-tax-rates-at-the-top-a-sensible-way-to-fund-key#_ftn3

About that tax ranking…

Maine Center for Economic Policy, May 30, 2023



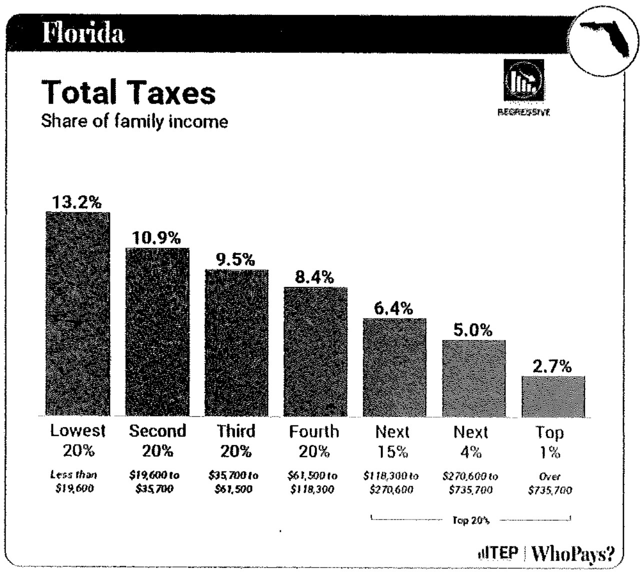
Note: Updated April 15, 2024

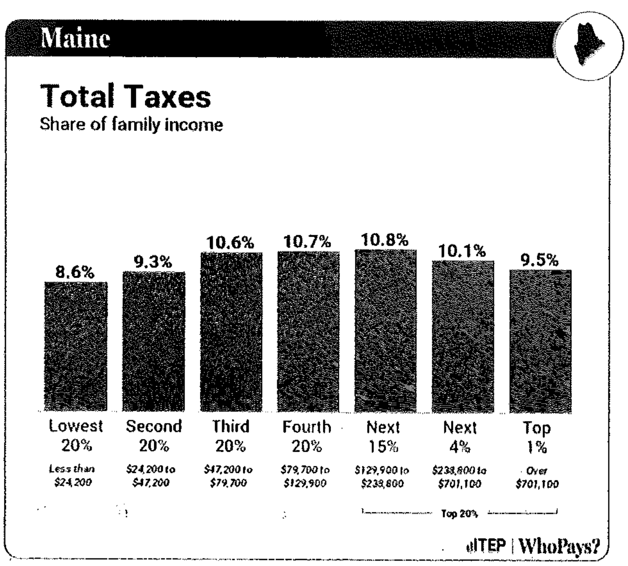
As lawmakers debate tax credits, cuts, and subsidies, we often hear Maine's tax policy compared with other states. State-by-state rankings and "listicles" are memorable and get a lot of attention, but are they really telling you what you need to know to craft fair tax policy? Our tax policy experts offer some advice…

Tax rankings don't measure what matters most to working families

- **Tax rankings don't drive a state's economic growth, working families do.** And working families and their employers are attracted to states that prioritize the services and infrastructure they rely on and which taxes pay for. Maine's population growth rate ranks among the fastest in the nation and is the only state growing younger.
- **Tax rankings created by for-profit entities are click bait.** WalletHub is a personal finance website that makes its money through advertising revenue and paid listings. State and city rankings generate a high click rate, generating profit in the process. Such rankings are oversimplified and misinterpreted because they don't give a full picture of what's going on in the state.
- **Tax rankings vary widely and don't always reflect how fair a state's tax system is.** For example, Florida is ranked by the Tax Policy Center as having the second lowest state and

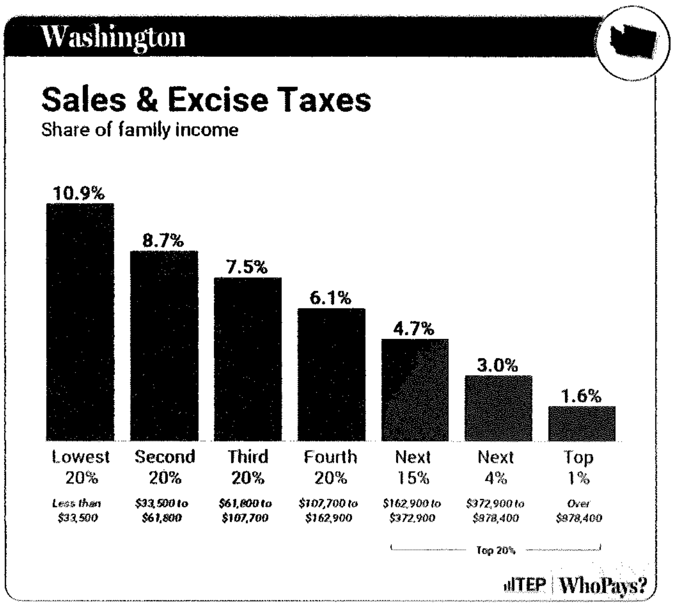
local taxes in the nation but is also shown by the Institute on Taxation and Economic Policy (ITEP) as having the nation's most unfair tax system. And while the Tax Policy Center ranks Maine as having the fifth highest state and local taxes, ITEP's analysis shows our tax system to be the seventh most equitable. **What does that mean?** It means that in "low tax" Florida, the ultra-wealthy don't pay their fair share, while those with the least have to pick up their slack.

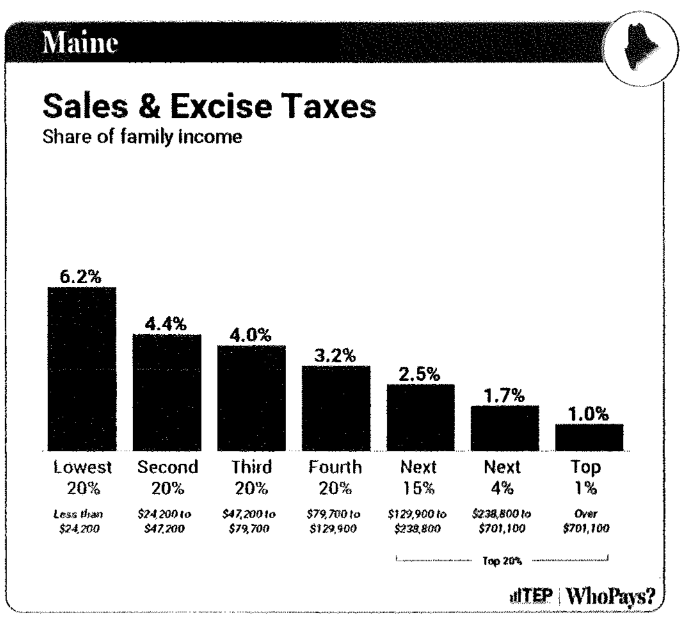




When it comes to taxes, fairness matters most

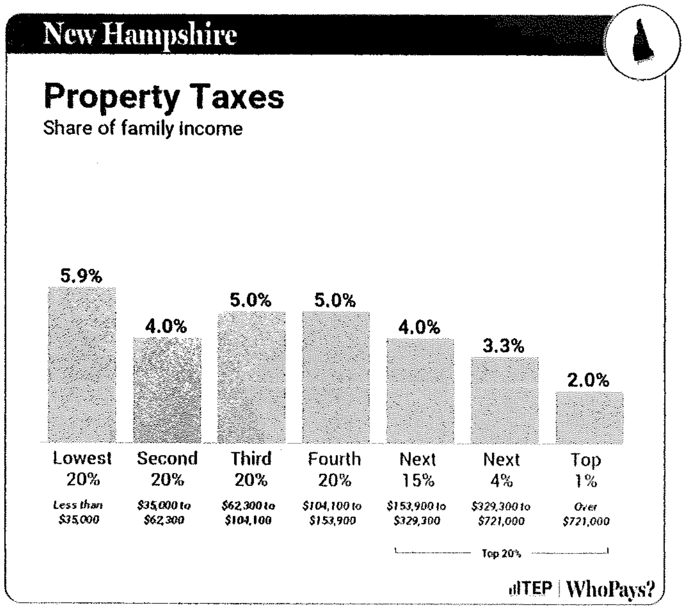
- **Many "low tax" states are actually high tax for people with low income.** Washington State has no income tax, but families with low income effectively pay 13.8 percent of their income in other taxes — one of the highest rates in the nation. Much of that high rate comes from sales taxes that disproportionately tax families with lower incomes. Washington families with low income pay a portion of their income in sales taxes that is seven times higher than the wealthiest families, and almost twice as much as their counterparts in Maine.

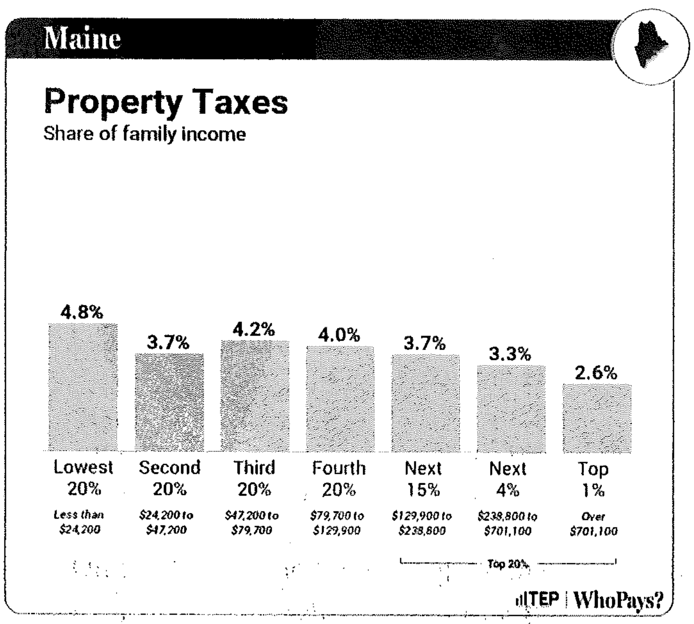




- **Many states with flat or no income taxes also look to property taxes to raise revenue.** New Hampshire, which has no personal income tax, relies heavily on property taxes to make up revenue, resulting in the third highest property tax rate in the nation.

All but the wealthiest 5 percent in New Hampshire pay a greater percentage of their income in property taxes than families in Maine.





- **On average in the US, the top 20 percent of earners pay a smaller share of their income in taxes while the bottom 80 percent** pay a larger share. In Maine, we've improved tax fairness by increasing tax credits that prioritize working families with low income. But we can and should do more to make Maine's tax system fair and equitable for all.

You get what you pay for

- **"Low tax" states have fewer services and greater inequality.** In Tennessee, a state that does not collect income taxes or provide refundable tax credits to families with low income, Black and Hispanic families face average effective sales and excise tax rates that are 28 percent higher than white households. Tennessee is also the 10th stingiest state when it comes to spending on children's health, education, and economic supports and consistently underperforms on measures of child well-being when compared to Maine.

- **It takes longer for "low tax" states to recover from crises.** When Maine responded to the Great Recession by cutting taxes and gutting services, the result was deep cuts to revenue, more than 1,800 laid off state workers, almost $2 billion in forfeited federal funds, and a painfully sluggish 10-year recovery that was among the worst in the nation. By contrast, Maine's recent pandemic response directed funding to public health, education, and support services, maximized federal funding, and targeted assistance to people with the greatest need. The approach resulted in economic and job growth stronger than the national average [1], prompting conservative economists to give Maine's pandemic response an A grade.

If only lawmakers talked about tax *dodgers* as much as tax *cuts*

- **The US loses about $688 billion in unpaid taxes every year,** representing a quarter of federal tax receipts and about 3 percent of the nation's total economic output. This gap is primarily the result of evasion by wealthy people and corporations. In Maine, corporate tax avoidance schemes go largely undetected.

- **In 2020, 55 of America's largest corporations paid zero in federal taxes** because of tax loopholes and giveaways, at a cost of $180 billion each year. We don't even know the full extent of the problem in Maine because we have no corporate tax transparency. We do know Maine loses over $1 billion each year to business tax subsidies and exemptions.

Notes:

[1] MECEP analysis US Bureau of Economic Analysis, Quarterly GDP by State in chained 2012 dollars

All charts can be found in ITEP's most recent *Who Pays?* report.