

TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

Before the Joint Standing Committee on Taxation

Hearing Date: *March 26, 2025*

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*”

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good morning, 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 Against 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.*”

For tax years beginning on or after January 1, 2025, the bill proposes an individual income tax surcharge equal to 4% of Maine taxable income greater than \$1,000,000. The surcharge is in addition to any other income taxes imposed on individuals. The revenue from the surcharge must be used to fund public prekindergarten to grade 12 education.

This surcharge would apply to a small population of taxpayers who often have significant control over when, where, and whether, to realize their income, and to otherwise volatile income sources, such as capital gains income. These factors mean this surcharge would be a volatile source of income for the State which would increase the challenge of managing the State's fiscal position and would likely increase the size of a revenue shortfall during an economic downturn.

Turning to more technical concerns, the Administration notes:

- The bill should clarify how the surcharge is to be applied to married taxpayers filing joint returns.
- It is unclear if the surcharge is to be applied to the taxable income of estates and trusts (36 M.R.S. § 5160)
- The income threshold for the tax surcharge is not adjusted for inflation and so would be reduced, in real terms, over time by inflation.
- The bill does not provide a mechanism for transferring the revenue collected to be used for the purpose of public education nor does it specify which Agency or Department is responsible for administration of the surcharge revenue.
- The surcharge would likely require updating the 2025 income tax withholding tables and estimated tax forms and instructions currently being used. If the Committee moves forward with this bill, applying the new tax rate to tax years beginning on or after January 1, 2026 is recommended for policy, compliance, and administrative reasons.

The preliminary estimated revenue impact of the bill is expected to increase revenue by approximately \$200 million per year.

The preliminary estimated administrative costs are under consideration. Depending on how the surcharge is to be implemented, additional one-time computer programming costs may be required. Unless the application date of the bill is changed to tax years beginning on or after January 1, 2026, the bill will require additional printing and mailing costs to update the 2025 income tax withholding tables and the estimated tax forms and notify those affected by the change.

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.