

Testimony in Opposition to LD 1622, An Act to Exempt Certain Income from State Income Tax

May 6, 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 1622.

LD 1622 would exempt certain sources of income from the state income tax, including pension income, tipped income, and overtime income. While this may sound like a good proposal on the surface, this proposal is not the best way to support workers or provide tax relief in a fair and equitable manner.

Exempting pension income is more likely to benefit Mainers with higher incomes. Maine already exempts income taxes on pension income up to \$48,000.

Exempting overtime pay would also exacerbate inequality. It would lead to workers making the same amount of money to have differing tax liabilities. Only 8% of hourly workers and 4% of salaried workers in the US qualify for overtime on a regular basis.ⁱ

Tipped incomeⁱⁱ

- A third of workers in households with tipped income already have no tax liability. This exemption would not help them, and it could even hurt them by reducing their eligibility for tax credits that depend on having taxable earnings.
- Workers who rely on tips constitute a very small amount of the workforce – around 2% of the Maine workforce. Providing a tax break to a tipped server but not a line cook or fast food worker would be inequitable.
- There are better ways to improve outcomes for tipped workers, including raising the tipped minimum wage and expanding the Earned Income Tax Credit and Dependent Exemption Tax Credit.

ⁱ The Budget Lab. “No Tax on Overtime” Raises Questions about Policy Design, Equity, and Tax Avoidance.” 17 Sept 2024. <https://budgetlab.yale.edu/news/240917/no-tax-overtime-raises-questions-about-policy-design-equity-and-tax-avoidance>

ⁱⁱ Myall, James. “3 reasons why “no tax on tips” isn’t all it’s cracked up to be.” Maine Center for Economic Policy. 30 Aug 2024. <https://www.mecep.org/blog/3-reasons-why-no-tax-on-tips-isnt-all-its-cracked-up-to-be/>