

## Testimony Against LD 107, An Act to Lower the Maine Individual Income Tax Incrementally to Zero

March 13, 2019

Good afternoon Senator Chipman, Representative Tipping and members of the committee. My name is Sarah Austin. I'm a policy analyst at the Maine Center for Economic Policy. We strongly oppose this bill to eliminate the state income tax.

Eliminating a state's progressive income tax is the surest way to create an upside-down tax system — one where those with the least income pay the highest share of their income in taxes. In states without an income tax, the poorest 40 percent of households pay an effective tax rate between 2.2 and 4.7 times higher than the wealthiest 1 percent.<sup>i</sup>

### Effective state and local tax rates of states without an income tax

State	Bottom 40%	Top 1%	Ratio
Alaska	5.5 %	2.5 %	2.2
Florida	10.5 %	2.3 %	4.6
New Hampshire	7.5 %	3 %	2.5
Nevada	8.8 %	1.9 %	4.6
South Dakota	10.2 %	2.5 %	4.1
Tennessee	9.7 %	2.8 %	3.5
Texas	11.6 %	3.1 %	3.7
Washington	14 %	3 %	4.7
Wyoming	8.6 %	2.6 %	3.3

Source: ITEP. *Fairness Matters: A Chart Book on Who Pays State and Local Taxes, March 2019*

Maine's income tax is the only state or local tax that asks those with higher incomes to pay more than those who earn less.<sup>ii</sup> That unique feature is a crucial component to balancing out the other elements of our tax code, such as the sales tax and property tax, that ask more of low- and middle-income families than they do of wealthy families. Both the sales tax and property tax have increased in recent years<sup>iii</sup>, making the progressive income tax even more important for tax fairness.

Maine has already suffered under large reductions to the income tax, which have led to underfunding of communities and pressure on property taxes. Maine hasn't fully funded revenue sharing to local communities since the recession and has never fully funded schools at the voter approved minimum of 55 percent.

In the coming biennium Maine will have \$430 million less per year because of changes to the income tax enacted since 2010 and is likely to continue underfunding these priorities without a plan to raise

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revenues.<sup>iv</sup> The income tax now raises \$1.76 billion each year, eliminating this revenue entirely would make it all but impossible to fund investments that support families and build thriving communities.

We urge this committee to vote ought not to pass on this bill.

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<sup>i</sup> MECEP analysis of data from the Institute on Taxation and Economic Policy, 2019

<sup>ii</sup> MRS, 2019 Tax Expenditure Report, Appendix D: Tax Incidence Report.

<sup>iii</sup> Maine's sales tax increased from 5% to 5.5% starting in October of 2013; The average statewide mil rate increased 20% between 2010 and 2016, from 12.78 to 15.06

<sup>iv</sup> ITEP analysis, December 2018