



March 17, 2021

To: Sen. Ben Chipman and Rep. Maureen Terry, co-chairs
Members, Committee on Taxation

From: David R. Clough – Maine State Director

Re: LD 495 – An Act To Improve Income Tax Progressivity by Establishing New Top Individual Income Tax Rates

LD 532 – An Act To Lower Income Taxes for Middle-income Families in Maine

This statement in opposition to LD 495 and LD 532 is on behalf of the nearly 3,000 small business owners in Maine who are members of the National Federation of Independent Business. NFIB has members in every Senate district and in 150 House districts. Member businesses collectively span a wide range of economic activities.

LD 495 adds a new top bracket with a tax rate of 11.15% and increases the next highest bracket rate to 8.35% compared to the current top rate of 7.15%.

Filer	Taxable Income	Current Rate	Proposed Rate
Single	\$50,000 or more	7.15%	
	\$50,000 to \$100,000	7.15%	8.35%
	\$100,000 or more	7.15%	11.15%
Joint	\$100,000 or more	7.15%	
	\$100,000 to \$200,000	7.15%	8.35%
	\$200,000 or more	7.15%	11.15%

LD 532 adds a new top bracket with a tax rate of 7.95% but keeps the tax rate at 7.15% in the next highest bracket.

Filer	Taxable Income	Current Rate	Proposed Rate
Single	\$200,000 or more	7.15%	7.95%
Joint	\$400,000 or more	7.15%	7.95%

Tax increase on Small Business Income

Both bills would significantly increase taxes thousands of Maine small business owners, because the income of most small businesses is passed through and taxed on the owners' personal 1040 tax return. Pass-through small businesses include sole proprietorships, S corporations, farms, partnerships, LLCs, self-employed people and some other types of business income reporting on the 1040. (I do not have data on small businesses by type in Maine, in response to a question

from Representative Terry, but will continue to look. However, it is possible that Maine Revenue Services has that data.)

Tax on Source of Small Business Growth or Survival

Income a small business owner gets to keep is income that can be used for business growth or survival, as investment in upgraded equipment is essential to keeping up with consumer expectations for product or service quality; keeping up with competitors; making investments in new products, services; or, maintaining or improving offices and facilities, for example.

Income a business owner gets to keep also improves the attractiveness of the entity's financial profile that is vital to obtaining a bank loan on favorable terms, interesting potential investors in an S corporation or attracting an equity partner who can strengthen the management or sales of the business.

Elevate Maine to Highest or Nearly Highest State Income Tax

Imposing an 11.15% tax on income above \$100,000 (single) or \$200,000 (joint) would place Maine highest in the nation for some levels of taxable income and second highest for other levels, according to Tax Foundation data.

	Tax Rate	Single Income	Joint Income
California	9.3%	\$ 58,634	\$ 117,268
	10.3%	\$ 299,508	\$ 599,016
	11.3%	\$ 359,407	\$ 718,814
	12.3%	\$ 599,012	\$ 1,000,000
	13.3%	\$1,000,000	\$ 1,198,024
Hawaii	8.25%	\$ 48,000	\$ 96,000
	9.00%	\$ 150,000	\$ 300,000
	11.00%	\$ 200,000	\$ 400,000

Source: <https://taxfoundation.org/state-income-tax-rates-2021/>

This is a distinction that has no benefit for Maine and the highly competitive challenge of attracting good-paying jobs and highly qualified workers in science, technology, engineering, mathematics, medicine, and other occupations – including highly qualified educators at colleges and universities – essential to state economic vitality in the 21st Century.

LD 495 and LD 532 will divert important financial resources from the challenge of small business owners in recovering from the Pandemic Recession and building financially strong small businesses going forward. NFIB respectfully urges an Ought Not to Pass report on these bills.

Thank you for being mindful of small business owner concerns.