

Testimony in Opposition to Income Tax Cut Bills

May 3, 2023

Senator Grohoski, Representative Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am testifying in opposition to the income tax cut bills before you today.

LD 1434, An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget,

sponsored by Rep. Laurel Libby would eliminate the income tax by 2026, which would have devastating impacts on the ability of the state to raise revenue to provide important services Mainers need, like safe roads, good schools, and access to health care. It would also result in a tax system that is less fair for low- and middle-income households who would likely see higher sales and property taxes to make up for lost revenue.

LD 1638, An Act to Lower the State's Individual Income Tax, sponsored by Sen. Eric Brakey

would lower Maine's income tax brackets from 5.8, 6.75, and 7.15 percent to 5.2, 6.3, and 7.05 percent in 2023 and 2024, and then further reduce them to 5, 6, and 7 percent for years after that. This tax cut would largely benefit Mainers with greater wealth, while reducing the state's ability to pay for important services Mainers need, like affordable housing and affordable child care.

LD 1671, An Act to Reduce the Income Tax to 4.5 Percent on the Lowest Tax Bracket and Remove Low-income Families from Taxation, sponsored by Rep. Jack Ducharme

would reduce the bottom income tax bracket from 5.8 percent to 4.5 percent. Contrary to the title of this bill, it would provide the greatest benefit to Maine tax filers earning over \$150,000 according to analysis from the Institute on Taxation and Economic Policy (see chart on the following page).¹ As we have previously testified, lowering income taxes on the lowest bracket has a greater benefit for taxpayers with higher earnings because of Maine's large standard deduction and personal exemption.

Better Policy Alternatives

If the Committee wishes to pursue tax cuts that address the needs of Mainers, MECEP believes increasing the child tax credit and making it refundable, increasing the sales tax fairness credit, and increasing the earned income tax credit are better options to support working Mainers and families with low and middle income.

The Committee could also pursue increasing the standard deduction to reduce the amount of income subject to tax. The standard deduction phases out for higher income earners, making this option more progressive than a blanket cut to the bottom tax rate. Any tax cuts like this should be paired with another policy, such as Rep. Collings' proposal for a surcharge on high

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incomes (LD 667), to offset the cost. This will ensure benefits go to those who need it most while also holding important state programs like school funding and health care whole.

Thank you for your time. I would be happy to answer any questions.

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Average tax change per Maine filer for 5.8% to 4.5% rate reduction



Source: Data from Institute on Taxation and Economic Policy

¹ Maine Center for Economic Policy, "Impacts of proposed income tax rate reduction." 29 March 2023. <https://www.mecep.org/blog/impacts-of-proposed-income-tax-rate-reduction/>