Maine Center for Economic Policy

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Testimony in Support of LD 501
March 9, 2021

Senator Chipman, Representative Terry, and Members of the Taxation Committee, my name is Sarah Austin. I'm a tax and budget policy analyst at the Maine Center for Economic Policy and am here this morning to testify in support of LD 501, An Act to Amend Maine's Corporate Income Tax by Increasing the Top Rate from 8.93 Percent to 12.4 Percent.

LD 501 would raise taxes on profitable corporations and secure revenue needed to invest in the fundamentals of a strong Maine economy: good schools, thriving communities, and access to health care.

Maine cut corporate taxes in 2018, raising the threshold for the top rate from $250,000 in profit up to $3.5 million. This means that Maine's top tax rate on corporations does not kick in until a company has amassed $3.5 million in profits. The 2018 corporate tax cut not only ensured that only the most profitable corporations are paying the top tax rate but it also reduced corporate tax revenues.

LD 501 would raise the tax rate on profits above $3.5 million from 8.93 percent to 12.4 percent. The Institute on Taxation and Economic Policy estimates that this bill would raise $78 million in revenue each year.

Maine's corporate income tax applies to all corporations with significant sales in the state, regardless of where those corporations are headquartered. Corporations based outside the state, such as online retailers, big box stores, and supermarket chains, make up a large portion of the Maine corporate tax base. These businesses pay Maine corporate income tax based on the amount of their sales in the state. For example, if a business had $20 million in profits, but sold only 6 percent of their gross sales in Maine, the business would pay Maine corporate income taxes on only $1.2 million of their profit.

Big corporations like Amazon, Walmart, Microsoft, Apple, and big food producers have seen their profits soar as many Maine families have fallen on hard times. The Washington Post reported in December of 2020 that their analysis of the 50 biggest U.S. companies showed that 45 turned a profit since March and that the majority of those firms cut staff and gave the bulk of profits to shareholders.[i]

When it comes to state corporate tax rates, the data is clear--low corporate tax rates benefit wealthy households but have no effect on worker wages. An assessment of state corporate tax changes between 1980 and 2010 showed no relationship between corporate tax rates and median wage growth, but a comparison of income growth for the top 1 percent over the same time showed corporate tax cuts coincided with an increase in income gains for the wealthiest households.[ii]

LD 501 asks highly profitable corporations, those that have done well even through a global pandemic and economic crisis, to pay a little more to help Maine rebuild our local communities and invest in the families that have been hurt the most.

MECEP urges the committee to vote ought to pass on LD 501.

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[i] Douglas MacMillan, Peter Whoriskey and Jonathan O'Connell. "America's biggest companies are flourishing during the pandemic and putting thousands of people out of work." *The Washington Post*. December 16, 2020. https://www.washingtonpost.com/graphics/2020/business/50-biggest-companies-coronavirus-layoffs/?utm_campaign=wp_post_most&utm_medium=email&utm_source=newsletter&wpisrc=nl_most&carta-url=https%3A%2F%2Fs2.washingtonpost.com%2Fcar-ln-tr%2F2da03be%2F5fda37dd9d2fda0efb8a6f9a%2F5ed790ddae7e8a436056031f%2F8%2F68%2F5fda37dd9d2fda0efb8a6f9a

[ii] Josh Bivens. "Real world data continues to show no link between corporate cuts and wage increases." Economic Policy Institute. November 3, 2017. https://www.epi.org/blog/real-world-data-continues-to-show-no-link-between-corporate-cuts-and-wage-increases/