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No. 1647

H.P. 1182

House of Representatives, April 25, 2019

An Act To Provide Tax Fairness to Maine's Middle Class and Working Families

Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "R B. Hunt".

ROBERT B. HUNT
Clerk

Presented by Representative BERRY of Bowdoinham.
Cosponsored by Senator CHIPMAN of Cumberland and
Representatives: BRENNAN of Portland, FECTION of Biddeford, GATTINE of Westbrook,
MOONEN of Portland, TEPLER of Topsham, TERRY of Gorham, TIPPING of Orono,
Senator: President JACKSON of Aroostook.

1 **Be it enacted by the People of the State of Maine as follows:**

2 **Sec. 1. 36 MRSA §200, sub-§1, ¶A**, as enacted by PL 1997, c. 744, §1, is
3 amended to read:

4 A. Part 1 of the report must describe the overall incidence of all state, local and
5 county taxes. The report must present information on the distribution of the tax
6 burden:

7 (1) For the overall income distribution, using a measure of system-wide
8 incidence that appropriately measures equality and inequality;

9 (2) By income classes, including, at a minimum, deciles of the income
10 distribution; and

11 (3) By other appropriate taxpayer characteristics.

12 The report must include a calculation of the average effective tax rate on state and
13 local taxes paid by the top 1% of tax families and the bottom 99% of tax families. For
14 purposes of this paragraph, "average effective tax rate on state and local taxes paid"
15 and "tax family" have the same meaning as in section 5111-C, subsection 1.

16 **Sec. 2. 36 MRSA §683, sub-§1-B**, as enacted by PL 2015, c. 267, Pt. J, §1, is
17 amended to read:

18 **1-B. Additional exemption.** A homestead eligible for an exemption under
19 subsection 1 is eligible for an additional exemption of \$5,000 of the just value of the
20 homestead for property tax years beginning on April 1, 2016 ~~and of~~ \$10,000 of the just
21 value of the homestead for property tax years beginning on ~~or after~~ April 1, 2017, April 1,
22 2018 and April 1, 2019; and \$15,000 of the just value of the homestead for property tax
23 years beginning on or after April 1, 2020.

24 **Sec. 3. 36 MRSA §5111-C** is enacted to read:

25 **§5111-C. Tax equalization assessment**

26 **1. Definitions.** As used in this section, unless the context otherwise indicates, the
27 following terms have the following meanings.

28 A. "Average effective tax rate on state and local taxes paid" means a fraction that is
29 based on statewide tax family data for the taxable year as calculated pursuant to this
30 paragraph.

31 (1) The numerator consists of the sum of the following calculations performed
32 for each income class:

33 (a) The sum of the amounts specified in subdivisions (i), (ii) and (iii),
34 multiplied by a fraction the numerator of which is the number of tax families
35 in the income class and the denominator of which is the expanded income of
36 the income class. The amounts summed are:

37 (i) The income tax liability;

1 (ii) Property taxes accrued on a homestead; and

2 (iii) Sales taxes paid.

3 (2) The denominator consists of the total taxable families for all income classes.

4 As used in this paragraph, "income class" means a decile of tax families, except that
5 for tax families above the 90th percentile there are 3 income classes defined as the
6 following: the 90th to 95th percentile; the 95th to 99th percentile; and the 99th to
7 100th percentile.

8 B. "Expanded income" means total gross income required to be reported on United
9 States Internal Revenue Service Form 1040 for the taxable year, plus tax-exempt
10 interest earned during the taxable year and, to the extent included in the calculation of
11 federal gross income, the absolute value of the amount of trade or business loss, net
12 operating loss, capital loss, farm loss and partnership or S corporation loss.

13 C. "Homestead" means any residential property, including cooperative property as
14 defined in section 681, subsection 1-B, in this State assessed as real property owned
15 by a tax family or held in a revocable living trust for a tax family and occupied as a
16 permanent residence or owned by a cooperative housing corporation and occupied as
17 a permanent residence by a tax family who is a qualifying shareholder. "Homestead"
18 does not include any real property used solely for commercial purposes.

19 D. "Income tax liability" means the total amount of income tax that is estimated to be
20 due for a tax family for a taxable year, exclusive of a withholder's liability for taxes
21 withheld, less any allowable credits for that taxable year. "Income tax liability" does
22 not include the assessment under subsection 2.

23 E. "Individual effective tax rate on state and local taxes paid" means a fraction the
24 numerator of which is the sum, for the taxable year, of a tax family's income tax paid
25 to other jurisdictions, income tax liability, property taxes accrued on a tax family's
26 homestead and sales taxes paid and the denominator of which is the tax family's
27 expanded income for the taxable year.

28 F. "Permanent residence" means that place where a tax family has a true, fixed and
29 permanent home and principal establishment to which a tax family, whenever absent,
30 has the intention of returning. A tax family may have only one permanent residence
31 at a time and, once a permanent residence is established, that permanent residence is
32 presumed to continue until circumstances indicate otherwise.

33 G. "Sales taxes paid" means Maine sales and use tax reported as an itemized
34 deduction for federal income tax purposes or, if not included as an itemized
35 deduction, the amount as calculated by the federal optional state sales tax tables.

36 H. "Tax equalization assessment" is an amount, which may not be less than zero,
37 equal to the difference in the average effective tax rate on state and local taxes paid
38 and a tax family's individual effective tax rate on state and local taxes paid multiplied
39 by a tax family's expanded income.

40 I. "Tax family" means an individual or a grouping of individuals based on tax filing
41 status.

1 **2. Assessment.** For tax years beginning on or after January 1, 2020, a tax family
2 must pay a tax equalization assessment if, for the tax year, a tax family has:

3 A. An individual effective tax rate on state and local taxes paid that is less than the
4 average effective tax rate on state and local taxes paid by the bottom 99% of tax
5 families as calculated in the most recent report submitted under section 200,
6 subsection 1; and

7 B. Expanded income of \$250,000 or more for a tax family filing as a single
8 individual or a married person filing a separate return, \$325,000 or more for a tax
9 family filing as a single individual or legally separated individual who qualifies as a
10 head of household or \$400,000 or more for a tax family filing a married joint return
11 or a tax family who is a surviving spouse permitted to file a joint return.

12 **Sec. 4. 36 MRSA §5219-S, sub-§§1 to 3,** as amended by PL 2009, c. 213, Pt.
13 BBBB, §16, are further amended to read:

14 **1. Resident taxpayer.** A resident individual is allowed a credit against the tax
15 otherwise due under this Part in the amount of 5% of the federal earned income credit for
16 the same taxable year, except that for tax years beginning ~~in 2009 and 2010~~ on or after
17 January 1, 2020, the applicable percentage is 4% 10%.

18 **2. Nonresident taxpayer.** A nonresident individual is allowed a credit against the
19 tax otherwise due under this Part in the amount of 5% of the federal earned income credit
20 for the same taxable year, except that for tax years beginning ~~in 2009 and 2010~~ on or after
21 January 1, 2020, the applicable percentage is 4% 10%, multiplied by the ratio of the
22 individual's Maine adjusted gross income, as defined in section 5102, subsection 1-C,
23 paragraph B, to the individual's entire federal adjusted gross income, as modified by
24 section 5122.

25 **3. Part-year resident taxpayer.** An individual who files a return as a part-year
26 resident in accordance with section 5224-A is allowed a credit against the tax otherwise
27 due under this Part in the amount of 5% of the federal earned income credit for the same
28 taxable year, except that for tax years beginning ~~in 2009 and 2010~~ on or after January 1,
29 2020, the applicable percentage is 4% 10%, multiplied by a ratio, the numerator of which
30 is the individual's Maine adjusted gross income as defined in section 5102, subsection
31 1-C, paragraph A for that portion of the taxable year during which the individual was a
32 resident plus the individual's Maine adjusted gross income as defined in section 5102,
33 subsection 1-C, paragraph B for that portion of the taxable year during which the
34 individual was a nonresident and the denominator of which is the individual's entire
35 federal adjusted gross income, as modified by section 5122.

36 **Sec. 5. 36 MRSA §5219-KK, sub-§2-A,** as enacted by PL 2017, c. 474, Pt. B,
37 §16, is amended to read:

38 **2-A. Credit in 2018 and after.** For tax years beginning on ~~or after~~ January 1, 2018
39 and January 1, 2019, a resident individual is allowed a credit against the taxes imposed
40 under this Part equal to the amount by which the benefit base for the resident individual
41 exceeds 6% of the resident individual's income. For tax years beginning on or after
42 January 1, 2020, a resident individual is allowed a credit against the taxes imposed under

1 this Part equal to the amount by which the benefit base for the resident individual exceeds
2 5% of the resident individual's income. The credit may not exceed \$750 for resident
3 individuals under 65 years of age as of the last day of the taxable year or \$1,200 for
4 resident individuals 65 years of age and older as of the last day of the taxable year. In the
5 case of married individuals filing a joint return, only one spouse is required to be 65 years
6 of age or older to qualify for the \$1,200 credit limitation. Married taxpayers filing
7 separate returns do not qualify for the credit under this section.

8 **SUMMARY**

9 This bill, for tax years beginning on or after January 1, 2020, requires payment of a
10 tax equalization assessment if a tax family has an expanded income of at least \$250,000
11 for a tax family filing as a single individual, \$325,000 for a tax family filing as a head of
12 a household or \$400,000 for a tax family filing a married joint return or filing a joint
13 return as a surviving spouse, and an effective tax rate that is less than the average
14 effective tax rate on state and local taxes paid by the bottom 99% of tax families. The tax
15 equalization assessment is an amount equal to the difference in the average effective tax
16 rate on state and local taxes paid, calculated by decile, and a tax family's individual
17 effective tax rate on state and local taxes paid, the sum of which is multiplied by a tax
18 family's expanded income.

19 This bill also, for property tax years beginning on or after April 1, 2020, increases the
20 total amount of the Maine resident homestead property tax exemption by \$5,000 to
21 \$25,000 of the just value of the homestead. Finally, this bill increases the earned income
22 tax credit from 5% of the federal earned income tax credit to 10% of the federal earned
23 income tax credit and reduces the threshold amount from 6% to 5% to qualify for the
24 property tax fairness credit.