

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: March 23, 2023

LD 667 – *“An Act to Impose a Tax Surcharge on Certain Incomes”*

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 667, *“An Act to Impose a Tax Surcharge on Certain Incomes.”*

For tax years beginning on or after January 1, 2024, this bill proposes an income tax surcharge, in addition to any other income tax imposed, equal to 3% of the taxpayer’s Maine taxable income greater than \$1,000,000 and not more than \$10,000,000 plus 6% of Maine taxable income greater than \$10,000,000. Seventy-five percent of the surcharge revenue must be used to fund public kindergarten to grade 12 education and twenty-five percent must be used to fund rural economic development.

Currently there are three progressive income tax rate brackets for non-corporate taxpayers of 5.8%, 6.75%, and 7.15%. The bracket amounts are subject to an annual inflation adjustment.

This surtax would affect approximately 7,000 taxpayers. The reliance on this narrow group of taxpayers makes the revenue from this proposal very volatile. Maine already has the 10th highest top marginal tax rate in the country and enactment of this bill will move Maine to second, just behind California. In

addition, the effective new 10.15% bracket between \$1 million and \$10 million of taxable income would move Maine above Massachusetts which recently increased its tax rate on taxable income above \$1 million from 5% to 9%.

The administration also notes the following technical concerns:

- the bill is unclear on how the surcharge is to be applied to married taxpayers filing joint returns;
- the bill is unclear on whether the surcharge applies to the taxable income of estates and trusts (36 M.R.S. § 5160); and
- the bill does not provide a mechanism for transferring the revenue collected to be used for the purpose of public education or rural economic development, nor does it specify which Agency or Department is responsible for administration of the surcharge revenue.

The estimated revenue impact of the bill is expected to increase revenue by approximately \$115 million in tax year 2024.

Estimated administrative costs continue to be under review.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.