History

- School funding referendum (2003-2004)
- Property tax cap referendum (2004)
- LD1 – Property tax reform (2005)
- TABOR referenda (2006, 2009)
- LD1495 – Income and sales tax reform (2009)
Themes

• Base-Rate Trade-off
  – Deductions, credits, exemptions, exclusions, reimbursements – all narrow the tax base, and require higher rate on everything else.

• Exportability
  – Certain taxes are paid proportionately more by residents, and certain taxes are paid proportionately more by non-residents.

• Approaches to Progressivity
What’s the Problem?

• **Property Tax** Outpacing Out-of-Pocket Means

• **Income Tax** at 8½ Percent Deters Economic Growth

• **Tax Burden** is Too High, also Deters Growth

• **Sales Tax** Base Outdated and Narrow
Figure 1
Property Taxes as Percent of Personal Income in FY2006, by State

Source: U.S. Census Bureau; Bureau of Economic Analysis.
Figure 2
Property Taxes as Percent of State and Local Taxes in FY2006

Source: U.S. Census Bureau
Figure 4

Distribution of Gross Property Tax Burden in Maine

Source: Allen and Woodbury 2006.
Figure 6
Share of Housing Units That Are Vacation Homes, by State

Source: U.S. Census Bureau
Figure 7
Highest Income Tax Rates by State

Source: Federation of Tax Administrators; Selected State Departments of Taxation.
Figure 8
Sales Tax Rates by State

Source: Federation of Tax Administrators
Figure 9
Number of Services Taxed, by State

Source: Federation of Tax Administrators, 2007 Survey
Figure 11
States' Tax Burden Rankings in 2008, under the Tax Foundation's New Methodology

Source: Tax Foundation
Figure 13
Tax Revenues as Percent of Personal Income in FY2006, by State

Source: U.S. Bureau of the Census; Bureau of Economic Analysis
Major Tax Reforms

• LD1 (2005)
  – Increased State Aid for Schools
  – Property Tax Circuit Breaker Expansion
  – Spending Growth Guidelines

• LD 1495 (2009)
  – Income Tax Reduction and Reform
  – Sales Tax Base Expansion

Note: LD 1495 is on hold pending a “people’s veto” referendum vote in June 2010.
Figure 16
Effect of Circuit Breaker on Percentage of Maine Households with High Tax Burden

Source: Allen and Woodbury 2006.
2009 Tax Reform

• Income Tax Reform
  – Reduced Top Rate from 8.5% to 6.5% (or 6.85% above $250K)
  – Replaced deductions with “resident credit”

• Sales Tax Reform
  – Meals and lodging tax from 7 to 8.5 percent
  – Rental car tax from 10 to 12.5 percent
  – Expanded base of general sales tax to certain services
Sales Tax Base Expansions

• **Amusement, entertainment and recreation services**
  – Movies, concerts, festivals, amusement parks, sporting events, miniature golf, go-carting, sight-seeing, whitewater rafting

• **Installation, repair and maintenance services**
  – Auto repair, jewelry, cameras, guns, musical instruments, electronic and mechanical equipment, lawn equipment, computers, appliances, clothes, shoes, furniture

• **Personal property services**
  – Dry cleaning, laundry, embroidery and monogramming, car washing, pet grooming, picture framing, house cleaning, furniture and rug cleaning, interior decorating, storage, moving, towing, boat mooring

• **Transportation and courier services**
  – Limousine, courier
Flat Tax with Resident Credit

• 6.5 percent flat rate (6.85 above $250,000)

• “Resident Credit” restores progressivity
  – Phases out at higher income levels
  – Refundable at lower income levels
  – Choice of base credit (like standard deduction) or alternate credit (like itemized deduction)

• Incremental value of itemized deductions capped ($13,636 individual, $27,273 joint)
Figure 22
Impact of Tax Reform by Income, for Four-Person Family Currently using Standard Deduction

Source: Author's Calculations.
Exporting Tax Burden

• Non-residents pay sales tax (generally not income tax)

• Taxes on meals and lodging, rental cars, and recreation services draw proportionately more from non-residents than other taxes.

• Unlike deductions, the “resident credit” in reformed income tax goes to residents only.
Estimated Impact of LD1495

• 95% of residents have income tax reduction.
• 87% have reduction in total tax burden.
• Those with a tax increase have very high itemized deductions.
Tax Reform Politics

• Losers much more vocal than winners.
• Involving key constituencies in decision making.
• People’s veto in Maine.