

OFFICE OF FISCAL AND PROGRAM REVIEW

Date: January 17, 2012
To: Members, Joint Standing Committee on Taxation
From: Elizabeth Cooper, Legislative Analyst

L.D. 849, An Act To Provide Tax Relief for Maine's Citizens by Reducing Income Taxes

Summary: This bill provides tax relief for Maine's citizens by reducing income taxes paid by Maine citizens. The bill requires that revenue exceeding the General Fund appropriation limitation and unappropriated surplus of the General Fund be used to gradually increase by 20% the income bracket thresholds at which higher income tax rates apply and to reduce the highest income tax rates from 8.5% and 7% to 6.5%.

Public Hearing: 3/31/11 – See work session analysis sheet dated 4/7/11. (Green Sheet)
There was no opposition testimony or NFNA.

Work Session and Amendments: Work Sessions were held on April 7th and on May 4th – the Committee had a 3-way divided report of OTPA(8)/ONTP(4)/OTPA(1)

Committee Amendments

- The **majority report amendment** replaces the bill and establishes individual income tax rates at 0%, 6.5% and 8.5% for tax years beginning on or after January 1, 2012. It reduces the highest income tax rate of 8.5% to 7.95% for tax years beginning on or after January 1, 2013. The amendment requires that revenue that exceeds the General Fund appropriation limitation and unappropriated surplus of the General Fund be used to gradually increase by 20% the income tax bracket thresholds at which higher income tax rates apply and to reduce the highest income tax rates to 4.5% over time to eventually establish one income tax rate. **This was later amended further in the Senate. (See Senate amendment)**
- **The OTPA Minority report** replaces the bill and provides a new title. It provides for a special advisory referendum that asks voters whether they favor a 4% individual income tax flat rate, with a standard deduction that phases out at higher incomes, while making up for 4/5 of lost revenues through consumption tax increases to be determined by a blue ribbon commission.

Senate Amendment

- This amendment strikes the provisions of Committee majority report amendment that require that revenue that exceeds the General Fund appropriation limitation and unappropriated surplus of the General Fund be used to gradually increase by 20% the income tax bracket thresholds at which higher income tax rates apply and retains the requirement that revenue be used to reduce the highest income tax rates to 4.5% over time to eventually establish one income tax rate.
- It also changed the provisions of majority report amendment that establish income tax rates at 0%, 6.5% and 8.5% for tax years beginning in 2012 to reflect the changes in the budget and start the rate changes in tax years beginning in 2013 or later.

House/Senate action and carryover: The majority report as amended in the Senate was accepted in both chambers and the bill was placed on the Special Appropriations Table. At the end of the session the Joint Standing Committee on Appropriations and Financial Affairs recommitted the bill to the Taxation Committee.

FOR TECHNICAL ISSUES AND ANALYSIS ON ORIGINAL BILL SEE GREEN SHEET DATED 4/7/11.