



# 125th MAINE LEGISLATURE

LD 849

LR 149(02)

## An Act To Provide Tax Relief for Maine's Citizens by Reducing Income Taxes

Fiscal Note for Bill as Amended by Committee Amendment " "

Committee: Taxation

Fiscal Note Required: Yes

### Fiscal Note

|                             | FY 2011-12     | FY 2012-13     | Projections<br>FY 2013-14 | Projections<br>FY 2014-15 |
|-----------------------------|----------------|----------------|---------------------------|---------------------------|
| <b>Net Cost (Savings)</b>   |                |                |                           |                           |
| General Fund                | \$11,852,200   | \$52,932,100   | \$89,575,500              | \$93,487,600              |
| <b>Revenue</b>              |                |                |                           |                           |
| General Fund                | (\$11,852,200) | (\$52,932,100) | (\$89,575,500)            | (\$93,487,600)            |
| Other Special Revenue Funds | (\$623,800)    | (\$2,785,900)  | (\$4,714,500)             | (\$4,920,400)             |

### Fiscal Detail and Notes

This bill establishes individual income tax rates at 0%, 6.5% and 8.5% for tax years beginning on or after January 1, 2012, reducing the highest income tax rate to 7.95% for tax years beginning on or after January 1, 2013. This will reduce Individual Income Tax revenue by the amounts in the table below and will reduce General Fund revenue and transfers to the Local Government Fund for revenue sharing.

|                               | FY 2011-12     | FY 2012-13     | FY 2013-14     | FY 2014-15     |
|-------------------------------|----------------|----------------|----------------|----------------|
| Individual Income Tax Revenue | (\$12,476,000) | (\$55,718,000) | (\$94,290,000) | (\$98,408,000) |

The additional administrative costs to Maine Revenue Services associated with implementing the new tax brackets and rates can be absorbed within existing budgeted resources.

In addition to the effects on budgeted revenue, this bill also requires that 40% of any General Fund revenue exceeding the General Fund appropriation limitation as well as a portion of any uncommitted resources in the unappropriated surplus of the General Fund, also known as the Cascade, must be transferred at the close of each fiscal year to the Tax Relief Fund for Maine Residents. Based on currently budgeted revenue, no transfers of General Fund revenue in excess of the appropriation limitation are expected through the end of fiscal year 2014-15. However, if actual revenue in these or later fiscal years exceeds budgeted revenue leaving an excess for year-end distribution, this bill could have a substantial fiscal impact.

When funds are transferred, the State Tax Assessor must incrementally increase by 20% the income bracket thresholds at which higher income tax rates will apply and ultimately reduce the highest income tax rates down to 4.5% utilizing the excess, surplus or both for that purpose. Any changes to the income bracket thresholds and income tax rates under this bill are self-funding in the short term but not in the long term, since the new bracket thresholds and tax rates would reduce revenue in future fiscal years without a corresponding offset. As a result, the existence of an unappropriated surplus could trigger the tax reduction provisions in the bill and reduce General Fund revenue in all future fiscal years to an extent not determinable at this time. Further legislation would be required to establish a transfer mechanism in order for the State Tax Assessor to access the reserves for the transfers contemplated by this bill.