The background of the slide features the official seal of the State of Maine. It depicts a moose on the left and a fisherman on the right, flanking a central shield with a pine tree. Above the shield is a crest with a star and the word "DIRIGO". Below the shield is a banner with the word "MAINE".

Modeling Tax Reform in Maine

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Outline of Presentation

- Maine's individual income tax and sales tax models
- Brief History of Tax Reform in Maine
- Summary of LD 1495: An Act to Implement Tax Relief and Tax Reform
- Distribution tables and their use
- Lessons learned

Individual Income Tax Model

- Micro-simulation model utilizing population of merged federal and state income tax returns (tax year 2000); resident and non-resident
- Federal and state tax returns supplemented by tax & rent returns to account for mostly elderly non-filers
- Statistical match with 2000 PUMS to account for remaining non-filers and additional economic and demographic information
- Consumption profiles imputed based on CES

Sales & Use and Excise Tax Model

- 1997 U.S. input-output accounts by BEA
- Tables are scaled to size and structure of the Maine economy
- Detailed personal consumption information is mapped into CES categories
- Personal consumption is split between residents and non-residents using Travel Industry Association information on Maine

Incidence Model

- Income and sales tax model runs create “classifier” files that are then imported in incidence model.
- Assumes statutory sales tax on consumers is all borne by consumers
- Resident consumer taxes from sales tax model are mapped into CES consumption profiles

History of Tax Reform in Maine

- Numerous studies over last 20 years pointing out.....
 - Very narrow sales tax base; heavily reliant on automobile and building supply sales
 - Relatively high top marginal tax rate (8.5%) that is applied at low level of taxable income
 - High property taxes for a number of reasons
 - Reports showing high state & local tax burden
 - Upcoming paper by Richard Woodbury for Federal Reserve Bank of Boston

Legislative Attempts at Tax Reform

- 1997: LD 1472 – An Act to Comprehensively Realign the Tax Structure of the State
 - \$20,000 Homestead Exemption paid for with extensive expansion of sales tax (\$120 million)
 - Distributional analysis by Institute on Taxation and Economic Policy
 - Impetus for funding of MRS micro-simulation model(s)
 - Surplus revenues result in tax reduction, but not comprehensive tax reform

Legislative Attempts at Tax Reform

- 2002: Speaker's Advisory Committee on Tax Reform
 - “Dream Team” of academics, business leaders and government officials
 - Proposal for incoming Governor to use
 - Extensive use of MRS models
 - Expand circuit breaker program and reduce top marginal tax rate to 8%
 - Expand sales and excise taxes to keep revenue neutral
 - Spending limitation

Legislative Attempts at Tax Reform

- 2003-05: Property tax relief, spending constraints and state aid to K-12 education
 - Maine Municipal Association (MMA) and Palesky referenda
 - Legislative response: LDs 1 & 2 (2005) – More education funding reform than tax reform
 - LD 1595 – An Act to Rebalance Maine's Tax Code
 - \$170 million of income and property tax relief paid for by \$170 million of sales and excise tax increases
 - Late session bill with no backing by legislative leadership or Governor
 - Limited use of MRS models

Legislative Attempts at Tax Reform

- 2007: LD 1925 – An Act to Reduce Taxes for Maine Residents
 - Comprehensive tax reform bill worked on and passed by Taxation Committee (bi-partisan)
 - Extensive hearings and work sessions to understand current tax code, develop goals, elicit suggestions from numerous groups and develop bill
 - Extensive use of MRS models
 - \$200 million sales and excise tax expansion to pay for income and property tax relief.
 - Failed in the Senate by one vote

Tax Reform Enacted

- 2009: LDs 1088 and 1495 – An Act to Implement Tax Relief and Tax Reform
 - Slimmed down version of LD 1925 from previous legislature; \$100 million of adjustments
 - More behind the scenes advocacy results in partisan bill out of Taxation Committee and legislature
 - Extensive use of MRS models to fine-tune bill, but limited public use
 - Governor demands changes and signs LD 1495 into law
 - People's Veto?

Sales Tax Changes

Expand sales tax to cover many services, including auto repair, and rentals and leases of tangible personal property

Raise meals and lodging tax from 7% to 8.5%

Raise short-term auto rental tax from 10 to 12.5%

Income tax changes

Old law:

Income tax system similar to federal income tax, with appropriate adjustments. The top marginal tax rate was 8.5%.

New Law:

Income tax liability = 6.5% of AGI less household credit
(Surtax of .35% from AGI above \$250,000)

Household Credit

Only Maine residents are eligible

Partially refundable to offset sales tax increase for low-income taxpayers

Equals \$250/exemption plus larger of

Standard credit (based on filing status only)

Alternative Credit = 5.5% of Maine itemized deductions plus a fixed amount, subject to cap

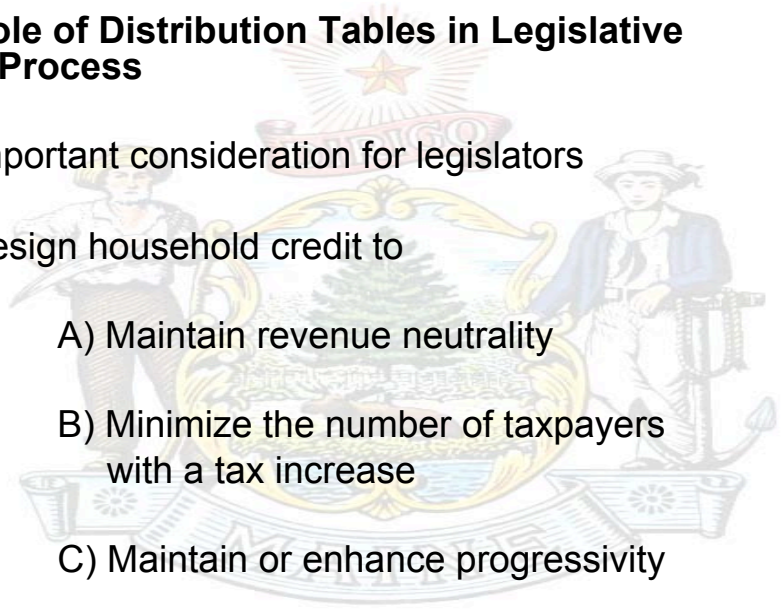
The household credit is reduced by 1.5% of AGI exceeding a threshold amount (\$55,000 for married)

Role of Distribution Tables in Legislative Process

Important consideration for legislators

Design household credit to

- A) Maintain revenue neutrality
- B) Minimize the number of taxpayers with a tax increase
- C) Maintain or enhance progressivity



Distribution of Maine Resident Income Tax in 2010

Expanded Income	Current law				LD 1495		Change in Tax Liability (\$ MIL)	Percent Tax Change	Families with Tax Decrease	Tax Decrease (\$ MIL)	Average Tax Decrease	Families with Tax Increase	Tax Increase (\$ MIL)	Average Tax Increase	Families with Tax Increase (percent)
	Tax Families	Tax Liability (\$ MIL)	Percent of Total	Tax Liability (\$ MIL)	Percent of Total										
-\$ Infinity <=	13342	133,133	\$3.4	0.3%	-\$7.5	-0.6%	-\$10.9	-320.2%	132,930	-\$10.9	-\$82	203	\$0.0	\$10	0.2%
13342 <=	19046	66,585	\$4.9	0.4%	-\$1.5	-0.1%	-\$6.4	-131.0%	66,338	-\$6.4	-\$96	247	\$0.0	\$18	0.4%
19046 <=	25325	66,534	\$10.6	0.8%	\$4.6	0.4%	-\$6.0	-56.5%	66,200	-\$6.0	-\$91	322	\$0.0	\$41	0.5%
25325 <=	32834	66,562	\$29.3	2.3%	\$21.3	1.8%	-\$8.0	-27.4%	65,846	-\$8.2	-\$124	696	\$0.1	\$154	1.0%
32834 <=	44385	66,565	\$49.6	3.8%	\$40.9	3.5%	-\$8.7	-17.6%	64,574	-\$9.2	-\$143	1,987	\$0.5	\$256	3.0%
44385 <=	58705	66,562	\$91.9	7.1%	\$82.3	7.0%	-\$9.7	-10.5%	63,035	-\$11.0	-\$174	3,521	\$1.3	\$368	5.3%
58705 <=	79287	66,563	\$138.4	10.7%	\$127.5	10.8%	-\$10.9	-7.9%	61,923	-\$13.0	-\$211	4,632	\$2.1	\$461	7.0%
79287 <=	114104	66,564	\$244.1	18.9%	\$230.9	19.6%	-\$13.2	-5.4%	59,879	-\$17.2	-\$288	6,685	\$4.0	\$599	10.0%
114104 <= \$ Infinity		66,561	\$716.6	55.6%	\$678.7	57.7%	-\$37.9	-5.3%	53,590	-\$58.7	-\$1,095	12,885	\$20.8	\$1,611	19.4%
Totals		665,629	\$1,288.8	100.0%	\$1,177.1	100.0%	-\$111.7	-8.7%	634,315	-\$140.6	-\$222	31,178	\$28.8	\$924	4.7%
Top Decile Decomposition 90-95, 95-99, and 99+															
114104 <=	152267	33,280	\$190.3	14.8%	\$183.8	15.6%	-\$6.5	-3.4%	27,951	-\$11.0	-\$395	5,324	\$4.5	\$852	16.0%
152267 <=	333388	26,625	\$265.4	20.6%	\$259.0	22.0%	-\$6.4	-2.4%	20,278	-\$15.0	-\$741	6,322	\$8.6	\$1,359	23.7%
333388 <= \$ Infinity		6,656	\$260.9	20.2%	\$235.9	20.0%	-\$25.0	-9.6%	5,362	-\$32.6	-\$6,086	1,240	\$7.6	\$6,152	18.6%

Distribution of Maine Resident Sales Tax in 2010

Expanded Income	Tax Families	Current law		LD 1495		Change in Tax Liability (\$ MIL.)	Percent Tax Change	Families with Tax Increase	Tax Increase (\$ MIL.)	Average Tax Increase	
		Tax Liability (\$ MIL.)	Percent of Total	Tax Liability (\$ MIL.)	Percent of Total						
-\$ Infinity <=	13342	133,133	\$38.5	5.3%	\$41.1	5.2%	\$2.6	6.7%	106,618	\$2.6	\$24
13342 <=	19046	66,585	\$26.7	3.6%	\$28.5	3.6%	\$1.9	7.0%	52,683	\$1.9	\$35
19046 <=	25325	66,534	\$35.0	4.8%	\$37.4	4.7%	\$2.4	6.8%	56,455	\$2.4	\$42
25325 <=	32834	66,562	\$53.6	7.3%	\$57.5	7.3%	\$3.8	7.1%	62,851	\$3.8	\$61
32834 <=	44385	66,565	\$63.5	8.7%	\$68.4	8.7%	\$5.0	7.8%	65,125	\$5.0	\$76
44385 <=	58705	66,562	\$75.5	10.3%	\$81.8	10.3%	\$6.2	8.2%	65,796	\$6.2	\$94
58705 <=	79287	66,563	\$87.7	12.0%	\$94.8	12.0%	\$7.1	8.1%	66,285	\$7.1	\$107
79287 <=	114104	66,564	\$105.2	14.4%	\$113.9	14.4%	\$8.7	8.3%	66,564	\$8.7	\$131
114104 <= \$ Infinity		66,561	\$246.9	33.7%	\$267.1	33.8%	\$20.2	8.2%	66,561	\$20.2	\$303
Totals		665,629	\$732.7	100.0%	\$790.5	100.0%	\$57.8	7.9%	608,937	\$57.8	\$95
<u>Top Decile Decomposition: 90-95, 95-99, and 99+ :</u>											
114104 <=	152267	33,280	\$75.1	10.2%	\$81.1	10.3%	\$6.1	8.1%	33,280	\$6.1	\$182
152267 <=	333388	26,625	\$94.3	12.9%	\$102.0	12.9%	\$7.7	8.1%	26,625	\$7.7	\$288
333388 <= \$ Infinity		6,656	\$77.6	10.6%	\$84.0	10.6%	\$6.4	8.3%	6,656	\$6.4	\$968

Distribution of Maine Resident Income and Sales Tax in 2010

Expanded Income	Tax Families	Current law		LD 1495		Change in Tax Liability (\$ MIL.)	Percent Tax Change	Families with Tax Decrease	Tax Decrease (\$ MIL.)	Average Tax Decrease	Families with Tax Increase	Tax Increase (\$ MIL.)	Average Tax Increase	Families with Tax Increase (percent)	
		Tax Liability (\$ MIL.)	Percent of Total	Tax Liability (\$ MIL.)	Percent of Total										
-\$ Infinity <=	13342	133,133	\$41.9	2.1%	\$33.6	1.7%	-\$8.3	-19.9%	132,192	-\$8.4	-\$63	941	\$0.0	\$28	0.7%
13342 <=	19046	66,585	\$31.5	1.6%	\$27.0	1.4%	-\$4.5	-14.3%	65,716	-\$4.5	-\$69	870	\$0.0	\$28	1.3%
19046 <=	25325	66,534	\$45.6	2.3%	\$42.0	2.1%	-\$3.6	-7.9%	63,602	-\$3.7	-\$58	2,932	\$0.1	\$21	4.4%
25325 <=	32834	66,562	\$83.0	4.1%	\$78.8	4.0%	-\$4.2	-5.1%	61,390	-\$4.4	-\$72	5,171	\$0.2	\$43	7.8%
32834 <=	44385	66,565	\$113.0	5.6%	\$109.3	5.6%	-\$3.7	-3.3%	55,313	-\$4.6	-\$84	11,252	\$0.9	\$80	16.9%
44385 <=	58705	66,562	\$167.5	8.3%	\$164.0	8.3%	-\$3.4	-2.1%	53,301	-\$5.4	-\$101	13,260	\$1.9	\$146	19.9%
58705 <=	79287	66,563	\$226.1	11.2%	\$222.3	11.3%	-\$3.8	-1.7%	52,501	-\$6.8	-\$130	14,062	\$3.0	\$215	21.1%
79287 <=	114104	66,564	\$349.3	17.3%	\$344.8	17.5%	-\$4.5	-1.3%	51,083	-\$9.9	-\$195	15,481	\$5.4	\$348	23.3%
114104 <= \$ Infinity		66,561	\$963.6	47.7%	\$945.8	48.1%	-\$17.8	-1.8%	44,781	-\$43.8	-\$979	21,780	\$26.1	\$1,197	32.7%
Totals		665,629	\$2,021.5	100.0%	\$1,967.6	100.0%	-\$53.9	-2.7%	579,879	-\$91.6	-\$158	85,750	\$37.7	\$439	12.9%
<u>Top Decile Decomposition: 90-95, 95-99, and 99+ :</u>															
114104 <=	152267	33,280	\$265.3	13.1%	\$264.9	13.5%	-\$0.4	-0.2%	23,504	-\$6.3	-\$267	9,776	\$5.9	\$599	29.4%
152267 <=	333388	26,625	\$359.7	17.8%	\$361.0	18.3%	\$1.2	0.3%	16,821	-\$9.7	-\$579	9,804	\$11.0	\$1,120	36.8%
333388 <= \$ Infinity		6,656	\$338.5	16.7%	\$319.9	16.3%	-\$18.6	-5.5%	4,456	-\$27.8	-\$6,238	2,199	\$9.2	\$4,200	33.0%

Tax Reform Repeal Debate and Distribution Tables

Supporters cite large percentage of resident taxpayers with an overall tax cut and the size of the average tax cut.

Opponents cite large amount of tax relief flowing to top 1% and the size of the average tax increase.

Cited in many op-eds.