

MAINE STATE LEGISLATURE

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ONE HUNDRED AND SIXTH LEGISLATURE

Legislative Document

No. 869

H. P. 655

House of Representatives, February 14, 1973

Referred to the Committee on Taxation. Sent up for concurrence and ordered printed.

E. LOUISE LINCOLN, Clerk

Presented by Mr. Finemore of Bridgewater.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED
SEVENTY-THREE

AN ACT Providing for a Change in Standard Deductions in Income Tax Law.

Be it enacted by the People of the State of Maine, as follows:

Sec. 1. R. S., T. 36, § 5124, repealed and replaced. Section 5124 of Title 36 of the Revised Statutes, as enacted by section F of chapter 154 of the private and special laws of 1969, is repealed and the following enacted in place thereof:

§ 5124. Standard deduction

The standard deduction of a resident individual or of a resident husband and wife who file a joint return shall be as defined under Internal Revenue Code, section 141, except that the percentage standard deduction shall be based on adjusted gross income as modified by this part.

Sec. 2. R. S., T. 36, § 5143, repealed and replaced. Section 5143 of Title 36 of the Revised Statutes, as enacted by section F of chapter 154 of the private and special laws of 1969, is repealed and the following enacted in place thereof:

§ 5143. Standard deduction

The standard deduction of a nonresident individual or husband and wife who file a joint return shall be as defined under Internal Revenue Code, section 141, except that the percentage standard deduction shall be based on adjusted gross income from sources within this State.

Sec. 3. R. S., T. 36, § 5220, sub-§ 1, ¶¶ B and C, amended. Paragraphs B and C of subsection 1 of section 5220 of Title 36 of the Revised Statutes, as

enacted by section F of chapter 154 of the private and special laws of 1969, are amended to read as follows:

B. Who has adjusted gross income **as modified by this part** of more than ~~\$1,000~~ \$2,300 if single or more than ~~\$2,000~~ \$3,300 if married and filing a joint return, or

C. Who having attained the age of 65 before the close of his taxable year has adjusted gross income **as modified by this part** of more than ~~\$2,000~~ \$3,300 if single and more than ~~\$3,000~~ \$4,300 if married and filing a joint return and his spouse has not attained the age of 65 and more than ~~\$4,000~~ \$5,300 if both have attained the age of 65 before the close of the taxable year.

Sec. 4. Effective date. This Act shall apply to taxable years beginning on or after January 1, 1973.

FISCAL NOTE

If the bill is effective January 1, 1973, it is estimated that there will be a loss of revenue for the fiscal year ending June 30, 1974 amounting to \$3,400,000. (This actually represents a loss of revenue for the 17-month period, January 1, 1973 through May 30, 1974; but most, if not all, of the loss would fall in the fiscal year ending June 30, 1974 because of the retroactive effect of the amendment.)

The loss of revenue for the fiscal year ending June 30, 1975, the 2nd year of the next biennium, would approximate \$2,500,000.

STATEMENT OF FACT

The purpose of this Act is to update Maine Income Tax Law to conform with federal law regarding standard deductions.

When the Maine Income Tax Law was first introduced, there was complete conformity with federal law regarding percentage standard deductions.

The Federal Tax Reform Act of 1969, effective for years beginning after December 31, 1969, liberalized the standard deduction. The standard deduction is in lieu of such itemized deductions as medical expenses, taxes, interest, contributions, etc.

As a result, the state law no longer conforms to the federal law insofar as the standard deduction is concerned. Certain lower income taxpayers will pay a Maine income tax for 1973 and subsequent years who are not paying any federal income tax. Other taxpayers will be penalized in subsequent years as a result of the federal increased percentage standard deduction.

Technical Explanation

The percentage standard deduction of 10% of adjusted gross income to a maximum of \$1,000 was introduced to the Federal Internal Revenue Code to provide taxpayers with the ability to use this method of deduction as opposed to the more burdensome method of itemizing deductions. Due particularly to increased home ownership, the percentage standard deduction has become inadequate. Eighty-two percent of all taxpayers used the standard deduction in 1944 while in 1969 only 58% used the standard deduction. Congress, therefore, increased the percentage in 1971 to 13% to a maximum of \$1,500 and through the Revenue Bill of 1971 has increased that percentage to 15% for years 1972 and thereafter to a maximum \$2,000 with a minimum of \$1,300. Maine Income Tax Law does not allow a person to itemize deductions for state purposes and use a percentage amount for federal purposes. The obvious reason for this is that we, the State of Maine, do not want to become embroiled in auditing amounts taken as itemized deductions.

In the event we do not change our law, many individuals in all tax brackets who would have been able to secure a larger deduction through itemization under the old law, i.e., would not be able to deduct them for Maine law as our limitation as it exists now is 10% to a maximum of \$1,000.