

MAINE STATE LEGISLATURE

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117th MAINE LEGISLATURE

FIRST REGULAR SESSION-1995

Legislative Document

No. 238

S.P. 98

In Senate, January 24, 1995

An Act to Create an Income Tax Stabilization Program.

(EMERGENCY)

Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "May M. Ross".

MAY M. ROSS
Secretary of the Senate

Presented by President BUTLAND of Cumberland.

Cosponsored by Senators: ABROMSON of Cumberland, CARPENTER of York, HALL of Piscataquis, HANLEY of Oxford, HATHAWAY of York, KIEFFER of Aroostook, LORD of York, MILLS of Somerset, PENDEXTER of Cumberland, Representatives: AULT of Wayne, DiPIETRO of South Portland, FARNUM of South Berwick, MURPHY of Berwick, REED of Falmouth, SPEAR of Nobleboro.

2 **Emergency preamble.** Whereas, Acts of the Legislature do not
become effective until 90 days after adjournment unless enacted
as emergencies; and

4
6 **Whereas,** Maine's individual income tax rates are among the
highest marginal rates in the nation; and

8 **Whereas,** these rates place a disproportionate burden upon
individuals that directly affects their participation in the
10 Maine economy and their ability to provide for their families; and

12 **Whereas,** if income tax revenues exceed projects, the amount
of the excess should be used to make adjustments to individual
14 income tax rates to alleviate that burden; and

16 **Whereas,** these adjustments should be made as rapidly as
possible to benefit the entire Maine economy; and

18 **Whereas,** in the judgment of the Legislature, these facts
20 create an emergency within the meaning of the Constitution of
Maine and require the following legislation as immediately
22 necessary for the preservation of the public peace, health and
safety; now, therefore,

24
26 **Be it enacted by the People of the State of Maine as follows:**

28 **Sec. 1. 36 MRSA §5111-B** is enacted to read:

30 **§5111-B. Revenue targeting**

32 1. Definitions. As used in this section, unless the
context otherwise indicates, the following terms have the
following meanings.

34 A. "Adjustment factor" means a number applicable to a tax
36 year determined by dividing the target revenue for the
numerically identical fiscal year by the tax revenue for
38 that fiscal year, rounded to the nearest 1/1,000.

40 B. "Target revenue" means \$614,625,000 for fiscal year
1994-95 and for subsequent fiscal years.

42 C. "Tax revenue" means undedicated General Fund individual
44 income tax revenue arising pursuant to this Part.

46 2. Rate adjustment. Annually, by September 15th, the State
Tax Assessor shall determine for the current tax year whether tax
48 revenue for the fiscal year ending the prior June 30th exceeded
the target revenue. If target revenue was exceeded, the State
50 Tax Assessor shall adjust the tax rates as specified in the tax

2 rate tables in section 5111, as adjusted for the prior tax year
3 pursuant to this section, by multiplying the percentage rates by
4 the current tax year's adjustment factor.

6 **3. Revenue Targeting Fund.** The Revenue Targeting Fund is
7 established to carry out the purposes of this section. For
8 fiscal year 1994-95 and for each subsequent fiscal year up to and
9 including the fiscal year ending during the calendar tax year in
10 which the limitation pursuant to subsection 4 is reached, tax
11 revenue exceeding \$614,625,000 must be deposited to the Revenue
12 Targeting Fund, the balance of which does not lapse but carries
13 to the subsequent fiscal year. Tax year 1995 and subsequent tax
14 year individual income tax refunds must be paid from this fund
15 until the fund balance carried forward from the prior fiscal year
16 is reduced to zero.

18 **4. Limitation.** The cumulative rate reduction attributable
19 to this section may not exceed 20% of the tax year 1994 rates.
20 In any fiscal year in which the determination is made pursuant to
21 section 1811 that the present fiscal year estimated General Fund
22 revenues exceed those of the prior fiscal year by 8% or more, no
23 rate adjustment pursuant to subsection 2 is made.

24 **5. Rounding.** Adjustments in tax rates arising pursuant to
25 this section are rounded to the nearest 1/10 of a percent, and
26 the total dollar amount of the tax on taxable income equal to the
27 lower limit of the income brackets is rounded to the nearest
28 dollar.

30 **Emergency clause.** In view of the emergency cited in the
31 preamble, this Act takes effect when approved.

34 STATEMENT OF FACT

36
38 In order to retain and attract jobs in the State, this bill
39 proposes to stabilize individual income tax receipts until a
40 reduction of 20% is achieved in the future. The bill provides a
41 mechanism to reduce individual income tax rates periodically
42 until they are 20% less than the 1994 rates, without reducing the
43 anticipated receipt of revenue.

44 The mechanism to achieve the periodic reductions is an
45 adjustment factor using the current revenue target for fiscal
46 year 1994-95 of \$614,625,000. A comparison of the actual fiscal
47 year revenue excess to the target amount provides the measure by
48 which tax rates are to be adjusted downward for the tax year.
49 This process repeats itself annually until the cumulative 20%
50 reduction is reached. In any fiscal year in which the General

2 Fund revenues exceed 8% of the prior year's revenues, the sales
tax reduction mechanism will take effect, lowering the sales tax
4 to 5% and no rate adjustment will be made that year to the
individual income tax.