

MAINE STATE LEGISLATURE

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FIRST SPECIAL SESSION

ONE HUNDRED AND SEVENTH LEGISLATURE

Legislative Document

No. 2185

H. P. 2006

House of Representatives, February 5, 1976

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

EDWIN H. PERT, Clerk

Presented by Mr. Morton of Farmington.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED
SEVENTY-SIX

AN ACT to Improve the Equity of the Maine Income Tax.

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

Sec. 1. 36 MRSA § 5115 is enacted to read:

§ 5115. Head of household

In the case of a taxpayer who qualifies to file his Federal Income Tax Return as head of household, such taxpayer may also file as head of household with the State of Maine. The tax imposed by section 5111 shall be approximately halfway between a single individual and a joint return computation, as shown on tax rates and tables as prescribed by the State Tax Assessor.

Sec. 2. 36 MRSA § 5124, as enacted by P&SL 1969, c. 154, § F, is repealed and the following enacted in place thereof:

§ 5124. Standard deduction

The standard deduction of a resident individual, head of household, or of a resident husband and wife who file a joint return shall be as defined under section 141 of the Internal Revenue Code of 1954, and amendments thereto and other provisions of the laws of the United States relating to federal income taxes as of January 1, 1976, except that the percentage standard deduction shall be based on adjusted gross income as modified by this Part and except that it shall not be greater than the following:

1. Husband and wife. For husband and wife filing a joint return, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$2,800;

2. Married filing separate. For a married person who files a separate return, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$1,400; or

3. Single person. For a single person, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$2,400.

Sec. 3. 36 MRSA § 5129 is enacted to read:

§ 5129. Retirement income credit

A direct credit against income taxes otherwise due to equal to 10% of the Federal Retirement Income Credit received that same year shall be allowed each year to resident individuals who qualify under section 37 of the Internal Revenue Code. This credit is not to exceed the tax liability for that year. A copy of the Federal Retirement Income Credit schedule shall be attached to the Maine return whenever credit is taken.

Sec. 4. 36 MRSA § 5143, as enacted by P&SL 1969, c. 154, § F, is repealed and the following enacted in place thereof:

§ 5143. Standard deduction

The standard deduction of a nonresident individual, head of household, or husband and wife who file a joint return shall be as defined under section 141 of the Internal Revenue Code of 1954, and amendments thereto and other provisions of the laws of the United States relating to federal income taxes as of January 1, 1976, except that the percentage standard deduction shall be based on adjusted gross income from sources within this State, and except that it shall not be greater than the following:

1. Husband and wife. For husband and wife filing a joint return, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$2,800;

2. Married filing separate. For a married person who files separate return, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$1,400; or

3. Single person. For a single person, 16% of an adjusted gross income, as modified by this Part, but this percentage shall not exceed \$2,400.

Sec. 5. 36 MRSA § 5220, sub-§§ 1 and 2, as enacted by P&SL 1969, c. 154, § F, are repealed and the following enacted in place thereof:

1. Those required to file. Every resident individual who is required to file a federal income tax return for the taxable year, or every resident individual not required to file a federal income tax form yet whose adjusted gross income consists of at least in part of additions made under section 5122, subsection 1, and

A. Who has adjusted gross income of more than \$1,000 if single or more than \$2,000 if married; or

B. Who, having attained the age of 65 before the close of his taxable year, has adjusted gross income of more than \$2,000 if single, or more than \$3,000 if married and his spouse has not attained the age of 65, or more than \$4,000 if both have attained the age of 65 before the close of the taxable year.

2. Nonresident required to file. Every nonresident individual who has adjusted gross income from sources in this State and is required to file a federal income tax return for the taxable year, or every nonresident individual not required to file a federal tax form but whose adjusted gross income from sources within this State consists at least in part of additions made under section 5122, subsection 1, and

A. Who has adjusted gross income of more than \$1,000 if single or more than \$2,000 if married; or

B. Who, having attained the age of 65 before the close of his taxable year, has adjusted gross income of more than \$2,000 if single, or more than \$3,000 if married and his spouse has not attained the age of 65, or more than \$4,000 if both have attained the age of 65 before the close of the taxable year.

Sec. 6. Effective date. The provisions of this Act shall become effective for the taxable year beginning January 1, 1976 and for all taxable years thereafter.

FISCAL NOTE

This bill will result in a loss of revenue of approximately \$5,495,000.

1. Head of household schedule	— \$ 100,000
2. Standard deduction (low income allowance)	— \$5,185,000
3. Retirement income credit	— \$ 210,000

STATEMENT OF FACT

This Act is one of the fundamental structural reforms recommended by the Governor's Tax Policy Committee. The bill would increase the equity of the state income tax as to determining each citizen's ability to pay by providing for greater conformity with various Internal Revenue Code provisions in the following areas:

1. Standard deductions and low income allowance;
2. Head of household rates;
3. Retirement income credit.

The standard deduction is a flat amount which can be taken in lieu of itemized deductions. The purpose of this section of the Act is to update

Maine income tax law regarding standard deductions in order to conform to a greater extent to federal income tax provisions. This attempts to liberalize the law so that those not paying any federal income tax would also not have to pay state income tax, as is the case at the present time.

The percentage standard deduction of 10% of adjusted gross income to a maximum of \$1,000 was introduced as part of the Maine income tax law in 1969. However, while federal standard deductions have increased to the present 16% to a maximum of \$2,800 for joint returns, due to increased use of itemized deductions, the State of Maine has kept its standard deductions at the 1969 levels. Because Maine law does not allow itemized deductions if the taxpayer takes standard deductions on the federal return, it is necessary to raise standard deductions to no higher than the 1975 level. Because the Federal Government also uses income taxes for other than revenue purposes, this bill holds the standard deduction percentage to the figures noted in section 5124.

The low income allowance is the income level up to which no tax return need be filed. At the present time, many low income taxpayers do not have to file a federal return, yet must file for state purposes. This bill would eliminate the need for a citizen to file in Maine yet not for federal purposes.

Head of household rates, now provided for in federal returns but not in state returns, are about halfway between joint and single rates. A head of household is an unmarried person who is nonetheless maintaining a residence for a close dependent (for example a father, mother or child).

The retirement income credit is designed to give those who have retirement income, but do not receive tax exempt social security or similar types of tax exempt benefit payment, a percentage of the federal retirement income credit as a tax credit on state income tax returns.

This Act will go into effect for the taxable year beginning January 1, 1976.