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STATE OF MAINE
SENATE
107TH LEGISLATURE
FIRST SPECIAL SESSION

SENATE AMENDMENT "F " to HOUSE AMENDMENT "O" to H.P. 2020, L.D. 2196, Bill, "AN ACT to Revise the Laws Relating to Funding of Public Schools."

Amend said Amendment by striking out everything after the 23rd paragraph and inserting in place thereof the following:

'Further amend said Bill by adding at the end, before the emergency clause, the following:

Sec. 6. 36 MRSA §5111, as enacted by P&SL 1969, c. 154, §F, §1, is repealed and the following enacted in place thereof:

§5111. Imposition and rate of tax

A tax is hereby imposed for each taxable year on the entire taxable income of every resident individual of this State and on the taxable income of every nonresident individual which is derived from sources within this State. The amount of the tax shall be determined in accordance with the following table:

If the taxable income is:	The tax is:
Not over $2,000	1% of the taxable income
$2,000 but not over $5,000	$20 plus 2% of excess over $2,000
$5,000 but not over $10,000	$80 plus 3% of excess over $5,000
$10,000 but not over $25,000	$230 plus 4% of excess over $10,000
$25,000 but not over $50,000	$830 plus 5% of excess over $25,000
$50,000 or more	$2,080 plus 6% of excess over $50,000

The effective date of change from the foregoing rate table to the next following rate table shall be January 1, 1976. The amount of tax for any taxable year or portion thereof in the period on or after January 1, 1976 to on or before December 31, 1976 shall be determined in accordance with the following:

If the taxable income is:	The tax is:
Not over $2,000	1% of the taxable income
$2,000 but not over $4,000	$20 plus 2% of excess over $2,000
$4,000 but not over $6,000	$60 plus 4% of excess over $4,00
$6,000 but not over $8,000	$140 plus 6% of excess over $6,000
$8,000 but not over $10,000	$260 plus 7% of excess over $8,000
$10,000 but not over $15,000	$400 plus 8% of excess over $10,000
$15,000 but not over $25,000	$800 plus 9% of excess over $15,000
$25,000 or more	$1,700 plus 10% of excess over $25,000

The amount of tax imposed for a taxable year containing a change in rate requiring a use of 2 of the foregoing tables shall be determined as set forth in section 5234.

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Sec. 7. 36 MRSA §5124, as enacted by P&SL 1969, c. 154, §F, §1, is repealed and the following enacted in place thereof:

§5124. Standard deduction; resident

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 the Internal Revenue Code, section 141, 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. Adjusted gross income;

A. For husband and wife filing a joint return, 16% of any adjusted gross income as modified by this Part, but this amount shall not exceed $2,800;

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

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

Sec. 8. 36 MRSA §5143, as enacted by P&SL 1969, c. 154, §F, §1, is repealed and the following enacted in place thereof:

§5143. Standard deduction; nonresident

The standard deduction of a nonresident individual, head of household, 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, and except that it shall not be greater than the following:

1. Adjusted gross income;

A. For husband and wife filing a joint return, 16% of an adjusted gross income as modifeid by this Part, but this amount shall not exceed $2,800;

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

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

Sec. 9. 36 MRSA §5234 is enacted to read:

§5234. Fiscal year tax determination

If any rate of tax imposed by this Part changes, and if the taxable year includes the effective date of change, unless that date is the first day of the taxable year, then the tax for such taxable year shall be a sum composed of an amount equal to the tax computed for the entire taxable year at the old rate times the proportion, determined by days, of the taxable year at the old rate plus an amount equal to the tax computed for the entire taxable year at the new rate times the proportion, determined by days, of the taxable year at the new rate.

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Sec. 10. Appropriation. There is appropriated from the General Fund to the Department of Finance and Administration, Bureau of Taxation, the sum of $215,000 to carry out the purposes of this amendment. The breakdown shall be as follows:

		1976-77
FINANCE AND ADMINISTRATION, DEPARTMENT OF		
Bureau of Taxation		
Personal Services	(4)	$ 45,000
All Other		166,000
Capital Expenditures		4,000
		$215,000 '

Further amend said Bill by striking out all of the emergency clause and inserting in place thereof the following:

'Emergency clause. In view of the emergency cited in the preamble, this Act shall take effect July 1, 1976, except sections 3 and 5 and section 3750 of Title 20 of section 1 of this Act which shall become effective when approved and except section 3748, subsection 4, last paragraph of section 1 of this Act which shall become effective July 1, 1977. Sections 6 to 10 of this Act shall take effect when approved.'

Fiscal Note

This amendment removes the 26% surtax and the increase in the cigarette tax as sources of revenue for education funding. To replace these 2 tax changes this amendment modifies the state's personal income tax in the following way:

1. Increases the number of income brackets in the tax schedule;

2. Adopts a steeper set of tax rates; and

3. Adopts the federal standard deduction provisions.

The results of these changes are a net increase in undedicated revenues for this biennium of a maximum of 18.3 million and a net increase in undedicated revenues of fiscal year 1977-77 of a maximum of $22.76 million.

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Statement of Fact

The present level of appropriation for the funding of public school education in 1976-77 is 265.4 million dollars, House Amendment "O" distributes 262.6 million dollars leaving a balance of 2.8 million dollars to pay for part of the current year's deficit under the local leeway provision. The remainder of the deficit in the current year is funded through a one-year increase in the cigarette tax.

House Amendment "O" anticipates a uniform property tax rate of 13 mills and provides the 13.5 million dollars required for this lower mill rate through a 26% surtax on the personal income tax.

Like House Amendment"O", this amendment distributes 262.6 million dollars for education in 1976-77 and applies the balance of the already appropriated funds, 2.8 million dollars, to part of the current year deficit.

To fund the balance of the current year deficit and the shift away from the uniform property tax, however, the amendment replaces the cigarette tax increase and 26% surtax with changes in the rate schedule and the deductions on the personal income tax.

The personal income tax increase and the adoption of the federal standard deduction provided in this amendment would not be a one-time levy. Rather, it makes possible not only the funding of the remainder of the present education finance deficit but also a permanent shift from the uniform property tax to the income tax. The amount of this shift for fiscal year 1976-77 would be approximately $13.5 million. Because this schedule will not be enacted until several months after the start of the calendar year, a lag in revenues from withholding will result and the revenues for fiscal year 1977-78 will be greater by approximately 4.5 million. Those moneys can be used to further shift the cost of education from the uniform property tax to the personal income tax. This change follows the general thrust of the Governor's Tax Policy Committee's recommendation to shift the entire cost of education and welfare from the property tax to other broad based taxes.

This new personal income tax schedule, along with the adoption of the standard deduction of the Federal Internal Revenue Code, will more accurately reflect each citizen's ability to pay. This is accomplished in 2 ways:

1. First, it increases the number of income brackets and then adopts higher tax rates. For example, the current state income tax schedule taxes a person earning $5,000 at the same

rate (3%) as a person earning $9,500 and it taxes the person earning $10,000 at the same rate (4%) that it taxes a person earning $24,500. By creating smaller brackets and using higher tax rates, the person with the better ability to pay is more accurately identified.

2. Secondly, by adopting the federal standard deduction (a low income allowance of $1,700 for a single person, $2,100 for a couple and, for wealthier persons the percentage standard deduction of 16% of adjusted gross income, up to $2,800 for a couple) the lower and medium income brackets are protected from too great a drain at any one time on their cash flow.

Thus, while this tax increase will raise approximately $18.3 million net for fiscal year 1976-77 and approximately $22.7 million for fiscal year 1977-78, its more progressive and equitable design will mean that less taxes will be owed by many people.

A final question concerning the tax increase of this amendment might be asked. Is the current tax burden of all of Maine's different taxes so regressive as to justify the even more progressive tax schedule of this amendment?

As at least a partial answer to this question, a very recent study, December 15, 1975, by Professor Stephen E. Lile of Western Kentucky University, prepared for the Kentucky Department of Revenue, analyzes the relative family tax burdens in the 48 contiguous states.[1]

Professor Lile's analysis includes the burden of the following taxes: State income, local income, state sales, local sales, residential property, cigarette excise and motor vehicle taxes. Business taxes, such as the corporate income tax, were not included. Estimates are based on taxes in effect during 1974.[2]

Professor Lile's study reaches the following conclusions about the regressive[3] burden of Maine's personal taxes:

Footnotes

1. Lile, Family Tax Burdens Among States and Among Cities Located within Kentucky and Neighboring States (1975)
2. The study relies on 1971 property tax data in making estimates of family residential property tax burdens.
3. Taxes can be distributed either progressively, proportionately or regressively among income classes. Under a regressive tax, the percent of income paid in taxes declines as income (and ability to pay) rises.

1. **MAINE FAMILY TAX BURDENS, BY TYPE OF TAX**

Family of four (Adjusted gross income	Individual Income State	Individual Income Local	General Sales State	General Sales Local	Residential Property	Motor Vehicles	Cigarette Tax	Total Tax Burden	National Rank
A. $ 5,000	$5	-	$89	-	$392	$133	$0	$866	12
B. $ 7,500	$30	-	$118	-	$525	$133	$60	$866	12
C. $10,000	$60	-	$144	-	$574	$133	$60	$971	14
D. $17,500	$158	-	$211	-	$980	$199	$60	$1608	18
E. $25,000	$350	-	$250	-	$1225	$199	$60	$2084	25
F. $50,000	$1200	-	$363	-	$2100	$199	$60	$3922	24

2. DISTRIBUTION OF MAJOR STATE-LOCAL TAX BURDENS RELATIVE TO MAINE FAMILY INCOME SIZE, 1974

Adjusted Gross Income, Family of Four

$5,000	$7,500	$10.000	$17,500	$25,000	$50,000
13.6%	11.5%	9.7%	9.2%	8.3%	7.8%

The significance of the above estimates for the more progressive tax scheduleproposed in this amendment would seem to be:

While the $11.3 million tax shift from property tax to the income tax might very well mean one citizen pays less property tax but more income tax, the people paying that increase would, due to this amendment's progressive tax schedule,be the wealthier people in Maine. It is these people who, according to the tables above, pay proportionately less of their income in taxes. A family of $5,000 ranks 12th in terms of personal tax burden while the family with an income of $50,000 ranks only 24th among the 48 contiguous states. Further, 13.6% of a family's $5,000 income goes to personal taxes while at the $50,000 income level the percentage is only 7.8.

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