FIRST SPECIAL SESSION

ONE HUNDRED AND SEVENTH LEGISLATURE

Legislative Document **No. 2211**

H. P. 2036 House of Representatives, February 12, 1976

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

EDWIN H. PERT, Clerk

Presented by Mr. Ingegneri of Bangor.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED SEVENTY-SIX

AN ACT to Revise and Reform the Maine Personal Income Tax Law.

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

Sec. 1. 36 MRSA § 5111, as enacted by P & SL 1969, c. 154, Section F, Sec. 1, is amended to read:

§ 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 taxable income
$2,000 but not over $4,000	$20 plus 2.5% of excess over $2,000
$4,000 but not over $5,000	$70 plus 3.0% of excess over $4,000
$5,000 but not over $6,000	$100 plus 3.5% of excess over $5,000
$6,000 but not over $8,000	$135 plus 4.0% of excess over $6,000
$8,000 but not over $10,000	$175 plus 4.5% of excess over $8,000
$10,000 but not over $15,000	$265 plus 5.5% of excess over $10,000
$15,000 but not over $20,000	$540 plus 6.0% of excess over $15,000
$20,000 but not over $25,000	$840 plus 7.0% of excess over $20,000
$25,000 but not over $30,000	$1,190 plus 8.0% of excess over $25,000
$30,000 but not over $50,000	$1,590 plus 8.5% of excess over $30,000
$50,000 or more	$3,290 plus 9.0% 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, 1977. The amount of tax for any taxable year or portion thereof on or after January 1, 1977 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 $4,000	$20 plus 3% of excess over $2,000
$4,000 but not over $6,000	$80 plus 4% of excess over $4,000
$6,000 but not over $8,000	$160 plus 5% of excess over $6,000
$8,000 but not over $10,000	$260 plus 6% of excess over $8,000
$10,000 but not over $15,000	$380 plus 7% of excess over $10,000
$15,000 but not over $20,000	$730 plus 8% of excess over $15,000
$20,000 but not over $25,000	$1,130 plus 10% of excess over $20,000
$25,000 but not over $30,000	$1,630 plus 11% of excess over $25,000
$30,000 or more	$2,180 plus 12% of excess over $30,000

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.

Sec. 2. 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 the tax rates and table as prescribed by the State Tax Assessor.

Sec. 3. 36 MRSA § 5124, as enacted by P & SL 1969, c. 154, Section F, Sec. 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:

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. 4. 36 MRSA §§ 5129 and 5130 are enacted to read:

§ 5129. Retirement credit

A resident individual shall be allowed each year a credit against tax otherwise due equal to 20% of any credit he received that same year under the Internal Revenue Code, section 37, Retirement Income Credit.

§ 5130. Limitation on tax

A taxpayer shall be allowed to compute his income tax using the income averaging formula under the Internal Revenue Code, section 1301.

Sec. 5. 36 MRSA § 5143, as enacted by P & SL 1969, c. 154, Section F, Sec. 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:

A. For husband and wife filing a joint return, 16% of an 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. 6. 36 MRSA § 5220, sub-§§ 1 and 2, as enacted by P & SL 1969, c. 154, Section F, Sec. 1, are repealed and the following enacted in place thereof:

1. Resident individual. 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 tax form yet whose adjusted gross income 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 and more than $3,000 if married, and his spouse has not attained the age of 65 and more than $4,000 if both have attained the age of 65 before the close of the taxable year.

2. Nonresident. 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 yet whose adjusted gross income consists at least in part of additions made under section 5122, subsection 1; and

A. Who has adjusted gross income from sources in this State of more than $1,000 if single and $2,000 if married; or

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

Sec. 7. 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.

Sec. 8. **Appropriation.** There is appropriated from the General Fund to the Department of Finance and Administration, Bureau of Taxation, the sum of $226,500 to carry out the purposes of this Act. The breakdown shall be as follows:

	1976-77
FINANCE AND ADMINISTRATION, DEPARTMENT OF	
Bureau of Taxation	
Personal Services (5)	$ 55,000
All Other	166,500
Capital Expenditures	5,000
	$226,500

Sec. 9. Effective date. The effective date of this Act shall be the tax year beginning January 1, 1976.

FISCAL NOTE

1. **Fiscal year 1976-77:**

It is estimated that the individual tax increases would result in the following additional revenues and expenses:

(A) **Gross Revenue** ($30,000,000)

(B) Cost of added provisions:

(1) Federal head of household rate ($100,000);
(2) Federal standard deduction ($5,185,000);
(3) Federal retirement income credit ($420,000);
(4) Federal income averaging ($320,000).

(C) Administrative costs ($226,500)

(D) **Net revenues** $23,748,500

2. **Fiscal year 1977-78:**
Net revenues for this fiscal year are estimated at $31,700,000.

STATEMENT OF FACT

1. The 2 general results of this bill are:

A. Establishment of a new, more progressive, rate schedule that will produce a net yield of 23.7 million dollars for the tax years which began January 1, 1976 and a **net** tax yield of 31.7 million dollars for the tax year beginning January 1, 1977. These amounts are below the gross revenues such a rate change will produce because of increased administrative costs and the costs detailed below in subsection B of this statement.

B. Incorporation in Maine tax law of the following provisions of the Federal Revenue Code (noted with each is the loss to the General Fund):

(1) Standard deduction (including the percentage standard deduction and the low income allowance) ($5,185,000);
(2) Head of household rate schedule ($100,000);
(3) Retirement income credit ($420,000);
(4) Income averaging ($320,000).

2. Because of the establishment of a more progressive rate schedule and the adoption of the Federal Standard Deduction, the following approximate changes **in the tax burden of a family of 4** (parents, 2 children) can be expected:

Adjusted Gross Income (Income prior to subtracting the standard deduction and the $1,000 per exemption)	**Present Rates**	**Proposed Rates for 1977**	**Change**
$ 2,000	0	0	
1,000	0	0	
6,000	$ 14	0	$ 14 less tax
8,000	32	$ 19	13 less tax
10,000	60	39	21 less tax
12,000	100	97	3 less tax
15,000	160	184	24 more tax
20,000	310	380	70 more tax
25,000	460	652	192 more tax
30,000	660	984	324 more tax
40,000	1,060	1,716	656 more tax
50,000	1,460	2,580	1,120 more tax
60,000	1,910	3,612	1,702 more tax
110,000	4,460	9,544	5,074 more tax

To further illustrate the point at which different taxpayers would pay more tax under the proposed 1977 rates than is currently paid under the present rates, the following examples are offered:

1. A family of 3 with an adjusted gross income of $10,000 would pay $13 less tax under the proposed rates and would not pay more tax than is currently owed until their income reached $12,000;

2. A family of 2 with an adjusted gross income of $10,000 would pay $3 less under the proposed rates and would not pay more tax than is currently owed until their income reached $12,000;

3. A single taxpayer with an adjusted gross income of $6,000 would pay $11 less under the proposed rates and would not pay more tax than is currently owed until his income reached $8,000.

According to 1974 tax return statistics, 84% of Maine resident taxpayers (those who file jointly or singularly) have an adjusted gross income below $15,000.