

MAINE STATE LEGISLATURE

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ONE HUNDRED AND EIGHTH LEGISLATURE

Legislative Document

No. 1613

H. P. 1328

House of Representatives, April 12, 1977

On motion of Mr. Carey of Waterville, referred to the Committee on Taxation. Sent up for concurrence and ordered printed.

EDWIN H. PERT, Clerk

Presented by Mr. Davies of Orono.

Cosponsor: Mr. Brenerman of Portland.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED
SEVENTY-SEVEN

**AN ACT to Insure That Low Paid Workers, the Elderly and the Poor of
Maine are not Taxed at a Higher Rate Than All Other Citizens.**

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

Sec. 1. 36 MRSA Pt. 10, c. 1001, is enacted to read.

PART 10

TAX STRUCTURE FAIRNESS

CHAPTER 1001

COMPREHENSIVE TAX REBATE ACT

§ 7101. Title

This chapter may be known as the "Comprehensive Tax Rebate Act of 1977."

§ 7102. Findings and purposes

A. Maine citizens who are low paid workers, who are elderly or who are poor should not bear a relatively heavier tax burden than other Maine citizens; and

B. Equity demands that Maine's total tax structure, the burden of each state and local tax, should not be regressive but should at least be proportional, with each taxpayer shouldering the same relative tax burden.

2. The 3 main purposes of this Act are to:

A. Establish a comprehensive tax rebate program designed to insure that no family or person, worker, elderly or poor, whose income is below the poverty level in Maine, will pay a greater share of taxes than a family or person at the poverty level;

B. Place in one, efficient, easily-administered program responsibility for alleviating unfairness or regressivity present in Maine's total state-local tax structure; and

C. Establish in the Bureau of Taxation the ability and responsibility to report to the Legislature every 2 years on the relative burdens of state and local taxes on the different persons and families in Maine.

§ 7103. Definitions

As used in this chapter, unless the context indicates otherwise, the following words and phrases shall have the following meanings.

1. **Annual income.** "Annual income" means the sum of federal adjusted gross income as defined in the Internal Revenue Code of the United States and all nontaxable income, including, but not limited to, the amount of capital gains excluded from adjusted gross income, alimony, support money, nontaxable strike benefits, intrafamily gifts of more than \$500, public assistance and relief, not including relief granted under this chapter, the gross amount of any pension or annuity, including Railroad Retirement Act benefits and veterans disability pensions, all payments received under the federal social security and state unemployment insurance laws, nontaxable interest received from the Federal Government or any of its instrumentalities, workmen's compensation and the gross amount of "loss of time" insurance. Income does not include gifts from nongovernmental sources or surplus foods or other relief in kind supplied by a public or private agency.

2. **Poverty level income.** "Poverty level income" means poverty level income calculated for different sized Maine families, based on the lowest poverty levels calculated for Maine by the United States Department of Commerce.

3. **Progressive tax rate.** "Progressive tax rate" means a rate which increases as a person's ability to pay increases; that is, the larger a person's income, the greater the percentage of income which goes toward taxes.

4. **Proportional tax rate.** "Proportional tax rate" means the rate stays relatively the same at all levels of ability to pay; that is, at each income level the percentage of income which goes toward taxes is the same.

5. **Regressive tax rate.** "Regressive tax rate" means the rate decreases as ability to pay increases; that is, as income increases, the percentage of income which goes toward taxes decreases.

6. **Relative tax burden.** "Relative tax burden" means the tax burden on each person, calculated by taking the amount of each tax paid by each income class and taking the sum of these taxes paid as a percentage of that person's adjusted gross income.

§ 7104. Tax rebate for unfair burdens of state and local taxes

1. **Tax rebate.** Any eligible resident who files an individual Maine income tax return and who is not a dependent for federal income tax purposes may

claim a rebate for the unfair burden of state and local taxes to which he has been taxable during the year for which the return is filed. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only $\frac{1}{2}$ of the tax rebate that would have been allowed on a joint return. The first year of taxes for which a rebate may be granted shall be 1978.

2. Personal income tax. While this tax rebate is a comprehensive program designed to lessen the regressivity of the entire state-local tax structure, it shall be administered through the Maine individual income tax system. The rebate shall be taken as a credit against any individual income taxes owed at time of filing by the applicant. If the rebate amount is greater than the taxes owed, the State Tax Assessor shall refund the difference. Even persons owing no income taxes may be eligible for a rebate.

§ 7105. Tax rebate schedule design

The tax rebate schedule provided for in this chapter shall be designed as follows.

1. Income limit. Each applicant may apply for a rebate if he has an annual income below \$7,500 and if his relative tax burden is greater than the tax burden of a similar person whose income is equal to the poverty level as calculated under this chapter.

2. Dependents. The taxpayer's rebate shall increase according to the number of exemptions he claims for state income tax purposes, up to a limit of 6.

3. Elderly claimant. An elderly claimant who is 62 years of age or older, during the year application is made, may add one additional exemption to any he claims for personal income tax purposes. An elderly claimant may apply for either this chapter's rebate or the refund established in Part 9, The Elderly Householders Tax and Rent Refund Act, whichever is greater.

4. Amount. For each eligible applicant, the rebate shall be equal to an amount calculated to insure that the applicant's relative tax burden is no greater than that of a similar applicant living at poverty level income. If sufficient funds are not appropriated for this chapter, each applicant's appropriated rebate may be decreased proportionately so as to stay within the funds appropriated. The State Tax Assessor shall stagger the payment of any rebate over \$200, with half being paid 6 months after payment of the first half.

5. Restriction. No claim for the tax rebate shall be filed by a resident who was an inmate of a public institution for more than 6 months during the taxable year for which the tax rebate could be claimed or who was not physically present in Maine for at least 6 months during the taxable year for which the tax credit could be claimed.

§ 7106. Administration

The State Tax Assessor shall be responsible for the following administrative actions:

1. The hiring of a consultant from outside State Government to assist in the calculation of poverty level incomes for different families of Maine, in the

construction of the tax rebate schedules described in subsection 2, paragraph B, and to estimate the relative tax burdens of each tax listed in this Title. These burden estimates shall be expressed in income increments of \$500 for incomes below \$10,000 adjusted gross income and in \$1,000 increments above that figure. They shall be based on:

- A. The yield of each tax levied by the state and local governments;
- B. Distribution of income received by family size for residents of the State;
- C. A distribution of consumer expenditures made by residents of the State; and
- D. Shifting and incidence assumptions with respect to each tax.

In hiring this consultant, emphasis should be given to the consultant's familiarity with Maine living conditions, rural and urban, and to the consultant's availability to periodically update his findings;

2. Rebate schedules. The construction of 2 rebate schedules:

- A. A schedule matching the description in section 7104 and assuming full funding of the rebate's costs; and
- B. A schedule matching the description in section 7104 but reducing, by a proportionate amount, the rebate of each eligible applicant so that it is estimated that no more than \$4 million for any one tax year is distributed in rebates;

3. Current research. The updating every 2 years, beginning August 1, 1980, of the information required in paragraphs A and B. This updating process shall include the following factors:

- A. Any increase in the cost-of-living;
- B. Any increase in the state-local tax burden; and
- C. The effect of inflation on low and middle income families forced to spend more on consumption in order to maintain their standard of living.

The State Tax Assessor may accomplish this updating by hiring an outside consultant, subject to the restrictions of subsection 1, last sentence. The results of this updating shall be reported to the Legislature;

4. Report to the Legislature. The report to the Joint Standing Committee on Taxation the results of subsection 3, paragraphs A, B and C by January 1, 1978; and

5. Regulations. The State Tax Assessor shall establish regulations necessary for the efficient and equitable administration of this chapter.

Sec. 2. Legislative action. The Joint Standing Committee on Taxation shall report during the 2nd regular session of the 108th Legislature a bill providing the tax rebate schedule established by Title 36, chapter 1001, that will result in no more than \$4 million in rebates being distributed for state and local taxes paid during the calendar year 1978. The bill shall be accompanied by a report detailing the tax burden research directed in Title 36, section 7105.

Sec. 3. Appropriation. There is appropriated from the General Fund to the Department of Transportation, Bureau of Taxation, the sum of \$60,000 to carry out the purposes of this Act. The breakdown shall be as follows:

1977-78

FINANCE AND ADMINISTRATION, DEPARTMENT OF

Bureau of Taxation
All Other

\$60,000

STATEMENT OF FACT

A \$60,000 appropriation for 1977-78 will be necessary to fund the economic research needed to estimate relative tax burdens and to construct the rebate schedule of this bill which ensures that low paid workers, the elderly and the poor of Maine are not taxed at a higher rate than all other citizens. For fiscal year 1978-79, a \$4 million appropriation will be necessary to fund the comprehensive tax rebate program.

1. Introduction

The comprehensive tax rebate program established by this bill is intended to lessen for lower and middle income persons the overall regressivity of the total state-local tax structure. It does this by calculating the regressive burden, if any, of each state-local tax and then establishing a single rebate formula that insures that no Maine family or person below the poverty level, worker, elderly or poor, will pay a greater share of taxes than a similar family or person whose income equals the poverty level. Although it is a partial reimbursement for taxes of all types, property taxes, sales taxes, etc., for efficiency and convenience, it is administered through the state income tax system.

A very important by-product of this bill will be the economic research, to be updated every 2 years, that will calculate:

- A. Poverty level income for different types of Maine families;
- B. Distribution of income received by family size for residents of the State;
- C. A distribution of consumer expenditures made by residents of the State; and
- D. Shifting and incidence assumptions with respect to each state tax.

Such information will provide the Legislature with a continuing and an up-to-date picture of the impact of our taxes.

2. Regressivity of the Maine tax structure

While the precise regressivity of each state or local tax will be calculated under the provisions of this bill, it is possible to see the general regressivity of Maine taxes. In 1975 the Kentucky Department of Revenue¹ analyzed the total family tax burdens in each state. The results for Maine in 1974 were:

¹ This analysis was completed before the recent \$18 million (progressive) income tax increase. It was based on the following taxes: income, sales, property (residential), motor vehicle, cigarette.

Family of Four (Adjusted Gross Income)	Percent of Income Paid in Taxes
A. \$5,000	13.6%
B. \$7,000	11.5%
C. \$10,000	9.7%
D. \$17,000	9.2%
E. \$25,000	8.3%
F. \$50,000	7.8%

3. The New Mexico experience

The comprehensive tax rebate approach to solving the overall regressivity of a state's tax structure was pioneered by New Mexico. Since Maine and New Mexico are quite similar in terms of population, tax burden and per capita income,² it is instructive to look briefly at New Mexico's experience with this program.

Since it was first implemented in 1972, New Mexico's comprehensive tax rebate has grown from a \$1.2 million program to, in fiscal year '75-76, a \$5.37 million program. Several times the New Mexico Legislature has expanded the eligibility and adjusted the formula due to increased costs of living. A comparison of the 1972 program and the 1976 program shows:

New Mexico Comprehensive Tax Rebate 1972 and 1976

	1972	1976
A. Total rebates	\$ 1.55 million	\$ 5.37 million
B. Acreage rebate	\$41.38	\$86.74
C. No. of returns	37,000	61,865
D. Percentage of Personal Income Tax returns receiving the rebate	10.01%	14.9%

Further, it is instructive to see what types of New Mexico citizens (workers, elderly, poor) took advantage of the rebate:

1974 New Mexico Comprehensive Tax Rebate Returns by Sources of Income

Major source of Income	Returns processed (%)
A. Wages and salaries	30.5%
B. Social security	34.4%
C. Public assistance	25.8%
D. Other	9.3%

Finally, 2 federal studies have commented on the New Mexico credit. A 1975 report, sponsored by the U.S. Department of Housing and Urban Development states:

² Per capita income in New Mexico in 1973 was even lower than Maine's — \$3,853 (N.M.) to \$4,082 (Me.). In 1974 in state taxes per \$1,000 of income, Me. had the 3rd heaviest burden in the country, New Mexico had the 13th heaviest.

[The New Mexico mechanism] is a flexible one and offers attractive administrative advantages. . . . Because the comprehensive credit condenses many of the other tax credits currently being used by the states to reduce regressivity (property tax, renters, food tax and sales tax credits) into a single, efficient, easily administered formula, it has great promise for both New Mexico and other governments that select this approach.

Another 1975 report, by the U.S. Advisory Commission on Intergovernmental Relations states:

Programs like the New Mexico [comprehensive tax rebate], if properly funded and administered, are potentially the most powerful tools yet tried for providing broad-based relief to low- and moderate-income families. . . .