

# MAINE STATE LEGISLATURE

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FIRST REGULAR SESSION

ONE HUNDRED AND TENTH LEGISLATURE

Legislative Document

No. 1074

H. P. 907

House of Representatives, February 27, 1981

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

EDWIN H. PERT, Clerk

Presented by Representative Tarbell of Bangor.

Cosponsors: Representative Masterton of Cape Elizabeth, Representative Berube of Lewiston and Representative Jacques of Waterville.

STATE OF MAINE

IN THE YEAR OF OUR LORD NINETEEN HUNDRED AND EIGHTY-ONE

**AN ACT to Adjust Annually Individual Income Tax Laws to Eliminate Inflation Induced Increases in Individual State Income Taxes.**

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

**Sec. 1. 36 MRSA § 5111, as amended by PL 1977, c. 686, § 7, is further amended by adding at the end a new paragraph to read:**

**The nominal dollar amounts of this section are subject to annual adjustment under section 5403.**

**Sec. 2. 36 MRSA § 5124-A, as enacted by PL 1977, c. 477, § 17, is amended by adding at the end a new paragraph to read:**

**The nominal dollar amounts of this section are subject to an annual adjustment under section 5403.**

**Sec. 3. 36 MRSA § 5126, as last amended by PL 1979, c. 615, § 4, is further amended by adding at the end a new paragraph to read:**

**The nominal dollar amounts of this section are subject to annual adjustment under section 5403.**

**Sec. 4. 36 MRSA c. 841 is enacted to read:**

**CHAPTER 841**  
**INFLATION ADJUSTMENTS**

**§ 5401. Findings and purpose**

Inflation erodes the value of personal exemptions and deductions in the Maine individual income tax structure and distorts fiscal equity among taxpayers. Inflation induced increases in individual income tax revenues result in annual collections that exceed the amounts anticipated by legislative actions establishing rates, exemptions, deductions and other features of the Maine individual income tax.

The income tax laws of this State, in combination with economic inflation, have caused inequitable treatment of the taxpayers because the application of inflexible, statutorily prescribed rates of tax, standard deduction and personal exemption to increasing personal incomes has resulted in increasing the taxpayer's tax liability while the taxpayers purchasing power has remained the same or, in some instances, has decreased. It is the purpose of this chapter to correct this situation by requiring that certain components of the individual income tax structure be adjusted in order to compensate for the impact of inflation.

**§ 5402. Definitions**

As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.

1. **Consumer Price Index.** "Consumer Price Index" means the average over a 12-month period of the National Consumer Price Index, not seasonally adjusted, published monthly by the Bureau of Labor Statistics, United States Department of Labor designated as the "National Consumer Price Index for All Urban Consumers-United States City Average."

2. **Inflation factor.** "Inflation factor" means the percentage adjustment factor plus one. The inflation factor for any taxable year shall not exceed 1.070.

3. **Percentage adjustment factor.** "Percentage adjustment factor" means 1/2 of the percentage increase in the Consumer Price Index for the 12-month period ending June 30th of the current taxable year over the Consumer Price Index for the 12-month period ending June 30th of the immediately preceding taxable year, expressed as a decimal rounded to the nearest 1000.

**§ 5403. Annual adjustment for inflation**

On or about September 15th of each taxable year, the State Tax Assessor shall multiply the inflation factor for that taxable year by the dollar amounts of both the standard deduction and the personal exemption as adjusted under this chapter in the immediately preceding taxable year. The State Tax Assessor shall also multiply the inflation factor by certain dollar bracket amounts in the tax rate schedule for each filing status, as follows.

1. Single individuals and married persons filing separate returns. The inflation factor shall be multiplied by the dollar bracket amounts, as adjusted under this chapter in the immediately preceding taxable year, on the tax rate schedule for single individuals and married persons filing separate returns, up to and including the dollar bracket amount for taxable income not over \$15,000, as adjusted. In addition, the inflation factor shall be multiplied by the dollar bracket amount for taxable income of \$15,000, as adjusted.

2. Heads of household. The inflation factor shall be multiplied by the dollar bracket amounts, as adjusted under this chapter in the immediately preceding taxable year, on the tax rate schedule for unmarried or legally separated taxpayers who qualify as heads of household, up to and including the dollar bracket amount for taxable income not over \$22,500 as adjusted. In addition, the inflation factor shall be multiplied by the dollar bracket amount for taxable income of \$22,500, as adjusted.

3. Married taxpayers and others filing joint returns. The inflation factor shall be multiplied by the dollar bracket amounts, as adjusted under this chapter in the immediately preceding taxable year, on the tax rate schedule for married taxpayers and widows and widowers filing joint federal returns, up to and including the dollar bracket amount for taxable income not over \$30,000, as adjusted. In addition, the inflation factor shall be multiplied by the dollar bracket amount for taxable income of \$30,000, as adjusted.

The dollar amounts of the standard deduction, the personal exemption and the dollar bracket amounts listed in this section, adjusted by application of the inflation factor and rounded to the nearest \$100, shall be effective for the then current taxable year and shall be incorporated into the income tax forms and instructions of the State Tax Assessor for that taxable year.

If the inflation factor for any taxable year is 1.000 or less, no adjustment shall be made for that taxable year and the dollar amounts of the standard deduction, personal exemption and the dollar bracket amounts of the tax rate schedules listed in this section shall remain at the prior taxable year's level.

Sec. 5. Effective date. This Act shall take effect for tax years beginning on or after January 1, 1981.

#### STATEMENT OF FACT

This bill provides for the annual indexation of the individual income tax system. Adjustments to the tax structure will be computed upon a inflation factor based upon the National Consumer Price Index as determined by the United States Department of Labor.