

MAINE STATE LEGISLATURE

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FIRST REGULAR SESSION

ONE HUNDRED AND TENTH LEGISLATURE

Legislative Document

No. 1421

H. P. 1197

House of Representatives, March 19, 1981

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

EDWIN H. PERT, Clerk

Presented by Representative Benoit of South Portland.

Cosponsors: Representative Brenerman of Portland, Representative

G. Diamond of Windham and Senator Clark of Cumberland.

STATE OF MAINE

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

AN ACT to Index the Maine Individual Income Tax Structure.

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

Sec. 1. 36 MRSA § 5111, as last 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 5363.

Sec. 2. 36 MRSA § 5124-A, as enacted by P. L. 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 annual adjustment under section 5363.

Sec. 3. 36 MRSA § 5126, as 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 5363.

Sec. 4. 36 MRSA § 5143-A, as enacted by PL 1979, c. 711, Pt. H, § 2, is repealed and the following enacted in its place:

§ 5143-A. Standard deduction

The standard deduction for nonresident individuals shall be the same as the standard deduction allowed under section 5124-A to resident individuals, multiplied by a percentage arrived at by dividing the nonresident's adjusted gross income from sources within the State by the adjusted gross income he would be required to report if he were a resident.

Sec. 5. 36 MRSA c. 841 is enacted to read:

CHAPTER 841**INFLATION ADJUSTMENTS****§ 5361. Findings and purpose**

The income tax laws of this State, in combination with economic inflation, have caused inequitable treatment of the taxpayer because the application of the inflexible, statutorily prescribed rates of tax, standard deduction and personal exemption to increasing personal income has resulted in increasing the taxpayer's taxable income although the taxpayer's purchasing power has remained the same or decreased. The purpose of this chapter is to correct these situations by requiring that certain elements of the individual income tax structure be adjusted in accordance with annual increases in the Consumer Price Index.

§ 5362. 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 for All Urban Consumers, not seasonally adjusted, published monthly by the Bureau of Labor Statistics, United States Department of Labor.

2. **Inflation factor.** "Inflation factor," for a given taxable year means the ratio, rounded to the nearest one-thousandth, of the Consumer Price Index for the calendar year immediately preceding that taxable year to the Consumer Price Index for the 2nd calendar year preceding that taxable year, provided that the inflation factor shall not be less than 1.000 and shall not exceed 1.070.

§ 5363. Annual adjustments

1. **Standard deduction.** For each taxable year beginning on or after January 1, 1982, the State Tax Assessor shall multiply the inflation factor for that taxable year by the dollar amounts of the standard deduction as provided in section 5124-A and as adjusted under this chapter for the immediately preceding taxable year. The resulting dollar amounts, rounded to the nearest \$50, shall be used as the standard deduction for that taxable year.

2. **Personal exemption.** For each taxable year beginning on or after January 1, 1983, the State Tax Assessor shall multiply the inflation factor for that taxable

year by the dollar amount of the personal exemption as provided in section 5126 and as adjusted under this chapter for the immediately preceding taxable year. The resulting dollar amount, rounded to the nearest \$50, shall be used as the personal exemption for that taxable year.

3. Tax brackets. For each taxable year beginning on or after January 1, 1984, the State Tax Assessor shall multiply the inflation factor for that taxable year by the dollar amounts of taxable income stated in the first 5 lines of the tax table provided by section 5111. The resulting dollar amounts, rounded to the nearest \$100, shall be used, together with the unadjusted dollar amounts, as the taxable income limits of their respective brackets for that taxable year, and the dollar amounts of tax stated in that section shall be adjusted to reflect the application of the stated tax rates to the adjusted taxable income amounts. The lower income limit of the 8% bracket shall be increased to equal the upper income limit of the 7% bracket.

If, through adjustment, the upper income limit of the 7% bracket equals or exceeds \$15,000, the 8% bracket shall cease to be effective. If, through subsequent adjustment, the upper income limit of the 7% bracket equals or exceeds \$25,000, the 9.2% bracket shall cease to be effective and the lower income limit of the 10% bracket shall be increased to equal the upper income limit of the 7% bracket.

STATEMENT OF FACT

This bill provides for a limited indexation of the income tax to offset the effects of inflation. Indexation would be phased in over a 3-year period, beginning with the standard deduction in 1982. The personal exemption would be indexed in 1983 and finally the income tax bracket amounts in 1974. Only the lower and middle income brackets, through 7%, would be indexed.