MAINE STATE LEGISLATURE

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FIRST REGULAR SESSION

ONE HUNDRED AND THIRTEENTH LEGISLATURE

Legislative Document NO. 735

H.P. 548 House of Representatives, March 12, 1987

Reference to the Committee on Taxation suggested and ordered printed.

EDWIN H. PERT, Clerk

Presented by Representative CASHMAN of Old Town.

Cosponsored by Representatives MAYO of Thomaston, SWAZEY of Bucksport, and Senator TWITCHELL of Oxford.

STATE OF MAINE

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

AN ACT to Make Adjustments in the State Tax Structure as a Result of Federal Tax Reform.

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

Sec. 1. 5 MRSA §1514, sub-§2, as enacted by PL 1987, c. 4, §1, is amended to read:

2. Transfers to the Tax Adjustment Reserve Fund. Notwithstanding any other provision of law, the State Controller shall transfer to the Tax Adjustment Reserve Fund, without deductions, that portion of undedicated General Fund revenues which is jointly certified by the State Budget Officer and the State Tax Assessor to be directly attributable to increased corporate or individual income tax collections re-

sulting from conformity to the United States Internal Revenue Code of 1986. The State Budget Officer and the State Tax Assessor shall jointly identify the amount attributable to individual income tax collections and the amount attributable to corporate income tax collections.

Sec. 2. 5 MRSA §1514, sub-§§4 and 5 are enacted to read:

4. Transfer to the General Fund. On November 2, annually, the State Controller shall transfer the balance in the Tax Adjustment Reserve Fund to the General Fund.

5. Sunset. The Tax Adjustment Reserve Fund is repealed on November 1, 1991. The State Controller shall transfer any balance in the fund on that date to the General Fund.

Sec. 3. 36 MRSA §5102, sub-§11, as amended by PL 1987, c. 4, §2, is repealed and the following enacted in its place:

11. Other terms. Any other term used in this Part has the same meaning as when used in a comparable context in the laws of the United States relating to federal income taxes, unless a different meaning is clearly required. For taxable years ending on or after January 1, 1986, any reference in this Part to the laws of the United States shall be construed as a reference to the provisions of the United States Internal Revenue Code of 1986, and amendments thereto and other provisions of the laws of the United States relating to federal income taxes as of December 1, 1986. This subsection shall be effective as to items of income, deductions, loss or gain accruing in taxable years ending on or after January 1, 1986, but only to the extent that those items have been earned, received, incurred or accrued on or after that effective date.

Sec. 4. 36 MRSA §5111-B is enacted to read:

§5111-B. Surcharge

A tax surcharge is imposed on all taxes otherwise imposed by chapters 803 to 815. The surcharge shall be calculated as follows.

1. Tax years beginning in 1987 to 1991. For tax years beginning in 1987 to 1991, the State Tax Assessor, on November 1, annually, shall estimate the reduction in General Fund revenues during the calendar year resulting from increasing the state standard deduction and personal exemption to equal the federal standard deduction and personal exemption. He shall subtract from that figure the amount attributable to individual taxpayers which was, on that date, in the Tax Adjustment Reserve Fund established in Title 5, section 1514, and divide that result by the budgeted revenues for individual taxpayers that would be collected without conformity for the fiscal year. That surcharge shall be multiplied by the taxes otherwise due under this chapter.

2. Tax years beginning after 1991. For tax years beginning after 1991, the surcharge shall be the same as it was in 1991.

Sec. 5. 36 MRSA §5124-A, as repealed and replaced by PL 1985, c. 535, §15, is repealed and the following enacted in its place:

§5124-A. Standard deduction; resident

The standard deduction for a resident taxpayer shall be the same as that to which he is entitled for federal income tax purposes.

Sec. 6. 36 MRSA §5126, as amended by PL 1983, c. 3, §3, is repealed and the following enacted in its place:

§5126. Personal exemptions

A resident taxpayer shall be entitled to the same amount for personal exemptions as that to which he is entitled for federal income tax purposes.

Sec. 7. 36 MRSA §5200-B is enacted to read:

§5200-B. Credit

A tax credit is available on all taxes imposed by chapters 817 to 819. The credit shall be calculated as follows.

1. Tax years beginning in 1987 to 1991. On November 1, annually, the State Tax Assessor shall divide the amount of revenue attributable to corporate taxpayers in the Tax Adjustment Reserve Fund established in Title 5, section 1514, and divide that amount by the budgeted revenues for corporate taxpayers that would be collected without conformity for the fiscal year. The resulting percentage shall be multiplied by the taxes otherwise due under chapters 817 to 819 to determine the amount of the credit.

2. Tax years beginning after 1991. For tax years beginning after 1991, the percentage used to determine the credit shall be the same as it was in 1991.

STATEMENT OF FACT

This bill provides for conformity of Maine's income tax laws with the United States Internal Revenue Code of 1986. It also provides a system for returning to taxpayers the increased state revenues resulting from conformity. The return of revenues is accomplished for individual taxpayers by increasing the personal exemption and standard deduction to equal their federal levels and imposing a surcharge. Increasing the personal exemption and standard deduction recognizes the federal policy of removing low-income taxpayers from the tax rolls. It also eases the difficulties of enforcing the tax against persons not required to file on the federal level. A surcharge is necessary to retain the current level of revenue because the increase of the personal exemption and standard deduction will cost more than the additional revenues to the State from conformity. The State Tax Assessor will determine the amount of the surcharge needed by subtracting the increased revenues resulting from conformity from the loss of revenue from the increased personal exemption and standard deduction.

For corporate taxpayers, a formula is established to provide a tax credit to return increased state revenues attributable to corporate taxpayers as a result of conformity.

This system maintains the relative progressivity of the current tax structure.

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