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H.P. 280 House of Representatives, February 6, 1991

Reference to the Committee on Taxation suggested and ordered printed.

Ed Pert

EDWIN H. PERT, Clerk

Presented by Representative FARNSWORTH of Hallowell.
Cosponsored by Representative GOULD of Greenville, Representative HOGLUND of Portland and Senator McCORMICK of Kennebec.

STATE OF MAINE

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

An Act to Balance the State Budget by Raising Additional Revenue.

(EMERGENCY)

Printed on recycled paper

Emergency preamble. Whereas, Acts of the Legislature do not become effective until 90 days after adjournment unless enacted as emergencies; and

Whereas, revenue projections for the State of Maine for the fiscal year ending June 30, 1991, may be or have recently been revised downward to $110,000,000 below the amount currently budgeted for fiscal year 1990-91, and additional legal and other obligations have also been projected, resulting in a supplemental budget proposal of $40,000,000 for a total revenue shortfall of $150,000,000 for the fiscal year ending June 30, 1991; and

Whereas, revenue projections for the next biennium from July 1, 1991 through June 30, 1993, now anticipate an even greater revenue shortfall of at least $750,000,000 below the amount needed to fund the current level of state services; and

Whereas, the Constitution of Maine requires a balanced budget and prohibits operating State Government with a deficit and further, maintaining the State's current highest-rated AAA bond rating requires a balanced budget; and

Whereas, the magnitude of the total budget deficit projected for the next biennium is so great that a balanced budget may only be achieved through significant reductions in state expenditures combined with significant increases in revenues; and

Whereas, significant reductions in the costs of State Government will result in major reductions in state services and will cause long-term impacts on the people of Maine and state government priorities; and

Whereas, careful planning and adequate time are necessary to collect data, review all policy options and maximize scarce resources in order to avoid massive disruptions of essential services and unintended and undesirable changes in government priorities; and

Whereas, proposed across-the-board budget cuts sufficient to meet the current $110,000,000 shortfall will immediately reduce local education funding, increase property taxes, increase burdens on municipalities, violate the Augusta Mental Health Institute consent decree, cause the loss of essential federal funds, disrupt state services in mental health facilities and penal institutions, decimate the University of Maine System and the Maine Technical College System and eliminate essential services for children, the elderly and the disadvantaged; and

Whereas, it is prudent to quickly and equitably raise $110,000,000 in new revenues through the fiscal year ending June 30, 1991, thereby making up the projected short-term revenue shortfall and balancing the budget as required by the Constitution of Maine; and

Whereas, raising revenues will avoid borrowing from other state funds, preserve the State's AAA bond rating and ensure that essential services are not disrupted in the next few months, providing time for the legislative and executive branches to review the budget and prepare a comprehensive, long-term package of cuts and revenues to meet both the $750,000,000 shortfall projected for the next biennium through June 30, 1993 and the additional $40,000,000 revenue shortfall projected through the current fiscal year; and

Whereas, this legislation must be enacted as an emergency since the adjustment to the sales and income taxes apply to tax years beginning before the expiration of the 90-day period, and the immediate revenue shortfall for the current fiscal year must be addressed before the expiration of the 90-day period; and

Whereas, in the judgment of the Legislature, these facts create an emergency within the meaning of the Constitution of Maine and require the following legislation as immediately necessary for the preservation of the public peace, health and safety; now, therefore,

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

Sec. 1. 36 MRSA §1811-B is enacted to read:

§1811-B. Special rate of sales tax

1. Fiscal years to June 30, 1993. Notwithstanding section 1811, the rates of tax imposed on the value of tangible personal property and taxable services sold at retail in the State from the effective date of this section to June 30, 1993 are as follows. The rate of tax is 11% on the value of liquor sold in licensed establishments as defined in Title 28-A, section 2, subsection 15, in accordance with Title 28-A, chapter 43; 8% of the value of rental of living quarters in any hotel, rooming house, tourist or trailer camp and rental for a period of less than one year of an automobile; and 6% on the value of all other tangible personal property and taxable services. Value is measured by the sale price, except as otherwise provided.

2. Computation. Notwithstanding section 1812, subsection 1, computation of the tax imposed under this section is calculated pursuant to rules adopted by the State Tax Assessor.

Sec. 2. 36 MRSA §1812, sub-§2-A is enacted to read:

2-A. Special rates; several items. Computation of the tax imposed pursuant to section 1811-B is the same as computation under subsection 2 except for the differences in the rates.

Sec. 3. 36 MRSA §5111, sub-§5 is enacted to read:

5. Income tax surcharge. In addition to the tax established by this section, there is imposed a tax surcharge on the amount of state tax liability due for any tax year that begins in 1990. This surcharge is calculated as follows.

A. For married individuals filing joint returns or surviving spouses permitted to file a joint return, if adjusted gross income is at least $30,000 but less than $70,000, the surcharge is 5%; if adjusted gross income is at least $70,000 but less than $95,000, the surcharge is 10%; and if adjusted gross income is $95,000 or more, the surcharge is 15%.

B. For unmarried individuals or legally separated individuals who qualify as heads of household, if adjusted gross income is at least $22,500 but less than $52,500, the surcharge is 5%; if adjusted gross income is at least $52,500 but less than $71,250, the surcharge is 10%; and if adjusted gross income is $71,250 or more, the surcharge is 15%.

C. For single individuals and married persons filing separate returns, if adjusted gross income is at least $15,000 but less than $35,000, the surcharge is 5%; if adjusted gross income is at least $35,000 but less than $47,500, the surcharge is 10%; and if adjusted gross income is $47,500 or more, the surcharge is 15%.

Sec. 4. 36 MRSA §5163, as enacted by P&SL 1969, c. 154, Pt. F, §1, is amended to read:

§5163. Taxable income of resident estate or trust; income tax surcharge

The "taxable income of a resident estate or trust" means its federal taxable income modified by the addition or subtraction, as the case may be, of its share of the fiduciary adjustment determined under section 5164.

In addition to the tax established by this section, there is imposed a tax surcharge on the amount of state tax liability due for any tax year that begins in 1990. This surcharge is calculated as follows.

1. Married individual or surviving spouse filing joint return. For married individuals filing joint returns or surviving spouses permitted to file a joint return, if adjusted gross income is at least $30,000 but less than $70,000, the surcharge is 5%; if adjusted gross income is at least $70,000 but less than $95,000, the surcharge is 10%; and if adjusted gross income is $95,000 or more, the surcharge is 15%.

2. Heads of households. For unmarried individuals or legally separated individuals who qualify as heads of household, if adjusted gross income is at least $22,500 but less than $52,500, the surcharge is 5%; if adjusted gross income is at least $52,500 but less than $71,250, the surcharge is 10%; and if adjusted gross income is $71,250 or more, the surcharge is 15%.

3. Single individuals and married persons filing separate returns. For single individuals and married persons filing separate returns, if adjusted gross income is at least $15,000 but less than $35,000, the surcharge is 5%; if adjusted gross income is at least $35,000 but less than $47,500, the surcharge is 10%; and if adjusted gross income is $47,500 or more, the surcharge is 15%.

Sec. 5. 36 MRSA §5176, sub-§3 is enacted to read:

3. Income tax surcharge. In addition to the tax established by this section, there is imposed a tax surcharge on the amount of state tax liability due for any tax year that begins in 1990. This surcharge is calculated as follows.

A. For married individuals filing joint returns or surviving spouses permitted to file a joint return, if adjusted gross income is at least $30,000 but less than $70,000, the surcharge is 5%; if adjusted gross income is at least $70,000 but less than $95,000, the surcharge is 10%; and if adjusted gross income is $95,000 or more, the surcharge is 15%.

B. For unmarried individuals or legally separated individuals who qualify as heads of household, if adjusted gross income is at least $22,500 but less than $52,500, the surcharge is 5%; if adjusted gross income is at least $52,500 but less than $71,250, the surcharge is 10%; and if adjusted gross income is $71,250 or more, the surcharge is 15%.

C. For single individuals and married persons filing separate returns, if adjusted gross income is at least $15,000 but less than $35,000, the surcharge is 5%; if adjusted gross income is at least $35,000 but less than $47,500, the surcharge is 10%; and if adjusted gross income is $47,500 or more, the surcharge is 15%.

Sec. 6. 36 MRSA §5200, as amended by PL 1985, c. 675, §§1 and 5, is amended by adding at the end a new paragraph to read:

<u>In addition to the tax established by this section, there is imposed a tax surcharge of 10% on the amount of state tax liability due for any tax year that begins in 1990.</u>

Sec. 7. 36 MRSA §5203, sub-§§4 and 5 are enacted to read:

<u>**4. Adjustment of rate.** For tax years beginning on or after January 1, 1990, the tax rates established in subsections 1 and 2 are adjusted annually to rates that are at the same ratio to state top-bracket rates as federal alternative minimum tax rates are to federal top-bracket rates for the same year.</u>

<u>**5. Income tax surcharge.** In addition to the tax established by this section, there is imposed a tax surcharge of 10% on the amount of state tax liability due for any tax year that begins in 1990.</u>

Emergency clause. In view of the emergency cited in the preamble, this Act takes effect when approved.

STATEMENT OF FACT

This bill raises approximately $110,000,000 in new revenues through the end of the 1990-91 fiscal year, June 30, 1991, making up the projected short-term shortfall in revenues and balancing the budget as required by the Constitution of Maine.

1. This bill increases the sales tax by 1¢ from the effective date of the bill to June 30, 1993. This provision raises approximately $45,000,000 by the end of the fiscal year, June 30, 1991.

2. The bill imposes a graduated surcharge on 1990 individual income taxes. This provision assesses a one-time fee on the amount of income taxes paid by individuals, based on a percentage of taxes paid. Taxpayers with the lowest incomes are exempted, with the amount of the surcharge increasing so that taxpayers with the highest incomes pay a larger share. For example, according to the following schedule, married individuals filing jointly would pay:

A. No surcharge on taxes on incomes of $30,000 or less;

B. Five percent surcharge on taxes on incomes of $30,000 to $70,000;

C. Ten percent surcharge on taxes on incomes of $70,000 to $95,000; and

D. Fifteen percent surcharge on taxes on incomes above $95,000.

This provision raises approximately $52,000,000 by the end of the fiscal year.

3. The bill establishes an alternative minimum tax set at 75% of individual and corporate tax rates, which will conform state tax codes with federal tax law. The alternative minimum tax essentially sets a floor, or minimum tax that must be paid even if a taxpayer otherwise qualifies for deductions that reduce tax liability below this minimum tax level. The alternative minimum tax affects higher-income taxpayers who currently pay taxes at a lower effective rate than those with less income who are not able to take advantage of as many deductions and tax shelters. This provision is estimated to raise about $5,000,000 by the end of the fiscal year.

4. The bill establishes a flat surcharge on corporate income taxes. This provision is estimated to raise about $8,000,000.