120th MAINE LEGISLATURE

FIRST REGULAR SESSION-2001

Legislative Document **No. 795**

S.P. 230 In Senate, February 13, 2001

An Act to Rebalance Maine's Tax Code and Reduce the Structural Gap.

Reference to the Committee on Taxation suggested and ordered printed.

Joy J. O'Brien

JOY J. O'BRIEN
Secretary of the Senate

Presented by Senator MILLS of Somerset.

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

CONCEPT DRAFT
SUMMARY

This bill is a concept draft pursuant to Joint Rule 208.

The bill would restructure the State's tax system to provide a balanced system that produces a more reliable revenue stream that is fairer to taxpayers, less volatile to changes in the economy and more attractive to economic development. The bill would contain the following provisions.

Effective for tax years beginning on or after January 1, 2002, the bill would revise the personal income tax by reducing the 4 current brackets to 2 brackets of 4% and 7% and establish a flat 7% rate for the corporate income tax. The bill would make the earned income tax credit refundable.

The bill would reduce the general sales tax rate from 5% to 4.5% effective July 1, 2002.

The bill would exempt from sales tax the first $5,000 paid for an automobile and would repeal the trade-in credit for automobiles effective July 1, 2002.

The bill would apply a 3% sales tax to motor fuels effective July 1, 2002 and would allocate an additional .05% of total gas tax revenues for marine uses and an additional .13% of gas tax revenues for the Snowmobile Trail Fund.

The bill would amend the business equipment tax reimbursement, BETR, program for property placed in service after April 1, 2002 by prohibiting receipt of benefits under both the BETR program and municipal tax increment financing, would restrict reimbursement to manufacturing and research equipment, would eliminate eligibility for retail and services industries, would reduce reimbursement to 60% of taxes paid, and would impose a wage standard that must be met for 95% of the BETR participants' employees in Maine. The wage standard would require that the hourly wage plus hourly apportioned benefits for each employee exceed the average weekly wage for that employee's county of residence divided by 40.

The bill would repeal the property tax exemption for pollution control facilities effective March 31, 2002. The exemption would be replaced by reimbursement under the BETR program.

Effective July 1, 2002, the bill would apply a tax on electricity at the following rates per kilowatt hour based on the source from which the electricity is generated: .9 cents for coal, .6 cents for oil and .3 cents for gas.

Beginning July 1, 2002, the bill would permit retailers to retain 1% of sales tax collections up to $100 per quarter. This right would be forfeited if the retailer does not file a timely return or remit the proper amounts due.

These changes in the tax system would take effect if alternative revenue sources are identified and enacted by June 1, 2002 as follows. A commission would be appointed and required to report to the Legislature by December 15, 2001 with recommended expansions to sales and use tax and gross receipts and franchise and excise taxes sufficient to compensate for the revenue loss resulting from the other changes in this bill. The commission would be guided by the following criteria: finding new revenue to broaden the tax base while controlling rates, shifting the tax burden from income to consumption, reducing volatility, minimizing regressive impacts on Maine's low-income population, avoiding losses from the exporting of taxable sales, allocating appropriate portions of the burden to out-of-state payers, conserving energy and counteracting sprawl. The commission would be comprised of the State Tax Assessor and the Director of the State Planning Office or their designees and 5 persons with backgrounds in economics, economic public policy or public accountancy, one appointed by the Governor, 2 appointed jointly by the President and the President Pro Tem of the Senate, and 2 appointed by the Speaker of the House of Representatives.