

MAINE STATE LEGISLATURE

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123rd MAINE LEGISLATURE

FIRST REGULAR SESSION-2007

Legislative Document

No. 952

S.P. 303

March 1, 2007

An Act To Reduce the Income Tax

Reference to the Committee on Taxation suggested and ordered printed.

A handwritten signature in cursive script that reads "Joy J. O'Brien".

JOY J. O'BRIEN
Secretary of the Senate

Presented by Senator COURTNEY of York.

Cosponsored by Senator: NASS of York, Representatives: CEBRA of Naples,
CROSTHWAITE of Ellsworth, DUPREY of Hampden, LANSLEY of Sabattus.

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

2 **Sec. 1. 5 MRSA §1518-A, sub-§1**, as enacted by PL 2005, c. 2, Pt. A, §4 and
3 affected by §14, is amended to read:

4 **1. Tax Relief Fund for Maine Residents.** There is created the Tax Relief Fund for
5 Maine Residents, referred to in this section as "the fund," which must be used to provide
6 tax relief to residents of the State as provided in subsection 3. The fund consists of all
7 resources transferred to the fund under section 1536 and other resources made available
8 to the fund.

9 **Sec. 2. 5 MRSA §1518-A, sub-§3** is enacted to read:

10 **3. Income tax reduction relief.** At the close of each fiscal year, the State Controller
11 shall certify to the State Tax Assessor the amount transferred to the fund and available for
12 tax relief. The assessor shall use the fund for the following purposes:

13 A. Fifty percent of the funds available must be used to lower the rates of income tax
14 imposed pursuant to Title 36, section 5111, subsections 1-B, 2-B and 3-B; and

15 B. Fifty percent of the funds available must be used to increase the percentage of the
16 federal earned income tax credit allowed as a credit against state income taxes
17 pursuant to Title 36, section 5219-S.

18 The assessor shall annually determine the new rates established pursuant to paragraph A
19 and the new percentage of the federal earned income tax credit established pursuant to
20 paragraph B and report to the joint standing committee of the Legislature having
21 jurisdiction over taxation matters. The rates and percentage are effective for the
22 immediately succeeding tax year only.

23 If there are insufficient funds to decrease the income tax rates by at least one quarter of a
24 percentage point each and increase the percentage of the earned income tax credit by 5
25 percentage points, then the assessor may not make the adjustments required pursuant to
26 this subsection.

27 **Sec. 3. 36 MRSA §5111, first ¶**, as amended by PL 1999, c. 731, Pt. T, §1, is
28 further amended to read:

29 A tax is imposed for each taxable year beginning on or after January 1, 2000, on the
30 Maine taxable income of every resident individual of this State. The amount of the tax is
31 determined as provided in this section and Title 5, section 1518-A, subsection 3.

32 **Sec. 4. 36 MRSA §5219-S**, as amended by PL 2003, c. 20, Pt. GG, §1, is further
33 amended to read:

34 **§5219-S. Earned income credit**

35 A taxpayer is allowed a credit against the taxes otherwise due under this Part equal to
36 5% of the federal earned income credit for the same taxable year, except that for tax years
37 beginning in 2003, 2004 and 2005, the applicable percentage is 4.92% instead of 5% and
38 for tax years beginning on or after January 1, 2008, the applicable percentage is as

1 adjusted pursuant to Title 5, section 1518-A, subsection 3. The credit may not reduce the
2 state income tax to less than zero.

3 **Sec. 5. Application.** This Act applies to tax years beginning on or after January 1,
4 2008.

5 **SUMMARY**

6 Current law caps the amount of General Fund revenue that may be transferred to the
7 Maine Budget Stabilization Fund at 12% of total General Fund revenues in the
8 immediately preceding state fiscal year; any amount over 12% is required to be
9 transferred to the Tax Relief Fund for Maine Residents and used to provide tax relief to
10 residents of the State.

11 This bill specifies how the Tax Relief Fund for Maine Residents is to be used to
12 provide tax relief. It requires the State Tax Assessor to annually adjust the income tax
13 rates and nontaxable income amount using funds in the Tax Relief Fund for Maine
14 Residents. The bill specifies that 50% of the revenue is to be used to decrease individual
15 income tax rates and 50% is to be used to increase the earned income tax credit. The new
16 rates and credit would be applicable for the immediately succeeding tax year only. If
17 insufficient funds exist to decrease the tax rates by at least one quarter of a percentage
18 point each and increase the earned income tax credit by 5 percentage points, then the
19 assessor is prohibited from making any adjustment for that year.