Amend
R.A.

L.D. 849

Date: 6-14-11 **Report A** (Filing No. S-308)

Reproduced and distributed under the direction of the Secretary of the Senate.

STATE OF MAINE

SENATE

125TH LEGISLATURE

FIRST REGULAR SESSION

COMMITTEE AMENDMENT "A" to S.P. 252, L.D. 849, Bill, "An Act To Provide Tax Relief for Maine's Citizens by Reducing Income Taxes"

Amend the bill by striking out everything after the enacting clause and before the summary and inserting the following:

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

1. Tax Relief Fund for Maine Residents. There is created the Tax Relief Fund for Maine Residents, referred to in this section as "the fund," which must be used to provide tax relief to residents of the State. The fund consists of all resources transferred to the fund under section 1518-B and section 1536 and other resources made available to the fund. The fund must be used in the order of the following.

A. As the first priority, amounts in the fund must be used to increase the individual income tax bracket threshold amounts under Title 36, section 5111, subsections 1-C, 1-D, 2-C, 2-D, 3-C and 3-D until the bracket thresholds are 20% higher than those in effect for tax years beginning in 2011.

B. As the 2nd priority, after the increase in bracket thresholds required under paragraph A has been achieved, amounts in the fund must be used to reduce the highest individual income tax rate until it reaches 4.5%.

The changes described in paragraphs A and B must be implemented pursuant to subsection 1-A.

Sec. 2. 5 MRSA §1518-A, sub-§1-A is enacted to read:

1-A. Implementation. By July 1, 2013 and annually thereafter, the State Controller shall inform the State Tax Assessor of the amount available in the fund for the purposes of subsection 1.

A. By November 1st annually, the State Tax Assessor shall use the amount in the fund identified by the State Controller to calculate new individual income tax bracket thresholds under subsection 1, paragraph A by proportional increases in each bracket until the thresholds are 20% higher than the bracket thresholds in effect for tax years beginning on or after January 1, 2011.

B. After bracket thresholds have reached the amounts required under subsection 1, paragraph A, by November 1st annually, the State Tax Assessor shall calculate the amount by which the income tax rates under Title 36, section 5111, subsections 1-C, 1-D, 2-C, 2-D, 3-C and 3-D may be reduced. Bracket rate reductions must be a minimum of 0.2 percentage points in the first year in which reductions are made and a minimum of 0.1 percentage points in subsequent years. If sufficient funds are not available to pay for the minimum reduction, a rate reduction may not be made until the amount in the fund is sufficient to pay for the reduction. When the amount is sufficient to pay for the reduction, the reduction must first be applied equally to each bracket for all categories under Title 36, section 5111, subsections 1-C, 1-D, 2-C, 2-D, 3-C and 3-D until one of the brackets reaches 4.5%, at which time the funds in subsequent years must be applied to the remaining bracket until there is a single bracket with a rate of 4.5%.

C. The State Tax Assessor shall provide public notice of new bracket thresholds and rates calculated under this subsection by November 15th annually.

D. New bracket thresholds and rates take effect beginning with tax years that begin on or after January 1st of the calendar year following the determinations made under this subsection.

E. Beginning in 2013 and each subsequent calendar year thereafter, on or about September 15th, the State Tax Assessor shall multiply the cost-of-living adjustment required under Title 36, section 5403 for taxable years beginning in the succeeding calendar year by the dollar amounts of the tax rate as adjusted by this subsection. If the dollar amounts of each rate bracket, adjusted by application of the cost-of-living adjustment, are not multiples of $50, any increase must be rounded to the next lowest multiple of $50. If the cost-of-living adjustment for any taxable year would be less than the cost-of-living adjustment for the preceding calendar year, the cost-of-living adjustment is the same as for the preceding calendar year.

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

3. Tax reduction from General Fund revenue growth. Beginning with fiscal year 2011-12 and before any other transfers from the General Fund, the State Controller shall transfer at the close of each fiscal year to the Tax Relief Fund for Maine Residents 40% of the amount by which General Fund revenue for the fiscal year being closed exceeds the General Fund appropriation limitation calculated for that year under section 1534.

Sec. 4. 5 MRSA §1536, sub-§1, as amended by PL 2005, c. 519, Pt. VV, §4, is further amended to read:

1. Third priority reserve. The State Controller shall, as the 3rd priority after the transfers to the State Contingent Account pursuant to section 1507 and the transfers to the Loan Insurance Reserve pursuant to section 1511 at the close of each fiscal year~~, transfer from the unappropriated surplus of the General Fund an amount equal to the amount available from the unappropriated surplus~~ and after all required deductions of appropriations, budgeted financial commitments and adjustments considered necessary by the State Controller have been made, transfer 40% of the amount available in the unappropriated surplus of the General Fund an amount equal to the amount available from the unappropriated surplus to the Tax Relief Fund for Maine Residents established in section 1518-A and 60% as follows:

A. Thirty-five percent to the stabilization fund;

B. Twenty percent to the Retirement Allowance Fund established in section 17251;

C. Twenty percent to the Reserve for General Fund Operating Capital;

D. Fifteen percent to the Retiree Health Insurance Internal Service Fund established in section 1519 to be used solely for the purpose of amortizing the unfunded actuarial liability associated with future health benefits; and

E. Ten percent to the Capital Construction and Improvements Reserve Fund established in section 1516-A.

Sec. 5. 36 MRSA §5111, sub-§1-B, as enacted by PL 1999, c. 731, Pt. T, §3, is amended to read:

1-B. Single individuals and married persons filing separate returns; tax years beginning 2002 to 2011. For tax years beginning ~~on or after January 1,~~ in 2002 to tax years beginning in 2011, for single individuals and married persons filing separate returns:

If Maine Taxable income is:	The tax is:
Less than $4,200	2% of the Maine taxable income
At least $4,200 but less than $8,350	$84 plus 4.5% of the excess over $4,200
At least $8,350 but less than $16,700	$271 plus 7% of the excess over $8,350
$16,700 or more	$856 plus 8.5% of the excess over $16,700

Sec. 6. 36 MRSA §5111, sub-§§1-C and 1-D are enacted to read:

1-C. Single individuals and married persons filing separate returns; tax year 2012. For the tax year beginning on or after January 1, 2012 and ending prior to January 1, 2013, for single individuals and married persons filing separate returns:

If Maine Taxable income is:	The tax is:
At least $5,000 but less than $19,950	6.5% of the excess over $5,000
$19,950 or more	$972 plus 8.5% of the excess over $19,950

1-D. Single individuals and married persons filing separate returns; tax tears beginning 2013. For tax years beginning on or after January 1, 2013, for single individuals and married persons filing separate returns:

If Maine Taxable income is:	The tax is:
At least $5,000 but less than $19,950	6.5% of the excess over $5,000
$19,950 or more	$972 plus 7.95% of the excess over $19,950

Sec. 7. 36 MRSA §5111, sub-§2-B, as enacted by PL 1999, c. 731, Pt. T, §5, is amended to read:

2-B. Heads of households; tax years beginning 2002 to 2011. For tax years beginning ~~on or after January 1,~~ in 2002 to tax years beginning in 2011, for unmarried individuals or legally separated individuals who qualify as heads of households:

If Maine Taxable income is:	The tax is:
Less than $6,300	2% of the Maine taxable income
At least $6,300 but less than $12,500	$126 plus 4.5% of the excess over $6,300
At least $12,500 but less than $25,050	$405 plus 7% of the excess over $12,500
$25,050 or more	$1,284 plus 8.5% of the excess over $25,050

Sec. 8. 36 MRSA §5111, sub-§§2-C and 2-D are enacted to read:

2-C. Heads of households; tax year 2012. For the tax year beginning on or after January 1, 2012 and ending prior to January 1, 2013, for unmarried individuals or legally separated individuals who qualify as heads of households:

If Maine Taxable income is:	The tax is:
At least $7,500 but less than $29,900	6.5% of the excess over $7,500
$29,900 or more	$1,456 plus 8.5% of the excess over $29,900

2-D. Heads of households; tax years beginning 2013. For tax years beginning on or after January 1, 2013, for unmarried individuals or legally separated individuals who qualify as heads of households:

If Maine Taxable income is:	The tax is:
At least $7,500 but less than $29,900	6.5% of the excess over $7,500
$29,900 or more	$1,456 plus 7.95% of the excess over $29,900

Sec. 9. 36 MRSA §5111, sub-§3-B, as enacted by PL 1999, c. 731, Pt. T, §7, is amended to read:

3-B. Individuals filing married joint return or surviving spouses; tax years beginning 2002 to 2011. For tax years beginning ~~on or after January 1,~~ in 2002 to tax years beginning in 2011, for individuals filing married joint returns or surviving spouses permitted to file a joint return:

If Maine Taxable income is:	The tax is:
Less than $8,400	2% of the Maine taxable income
At least $8,400 but less than $16,700	$168 plus 4.5% of the excess over $8,400
At least $16,700 but less than $33,400	$542 plus 7% of the excess over $16,700
$33,400 or more	$1,711 plus 8.5% of the excess over $33,400

Sec. 10. 36 MRSA §5111, sub-§§3-C and 3-D are enacted to read:

3-C. Individuals filing married joint return or surviving spouses; tax year 2012. For the tax year beginning on or after January 1, 2012 and ending prior to January 1, 2013, for individuals filing married joint returns or surviving spouses permitted to file a joint return:

If Maine Taxable income is:	The tax is:
At least $10,000 but less than $39,900	6.5% of the excess over $10,000
$39,900 or more	$1,944 plus 8.5% of the excess over $39,900

3-D. Individuals filing married joint return or surviving spouses; tax years beginning 2013. For tax years beginning on or after January 1, 2013, for individuals filing married joint returns or surviving spouses permitted to file a joint return:

If Maine Taxable income is:	The tax is:
At least $10,000 but less than $39,900	6.5% of the excess over $10,000
$39,900 or more	$1,944 plus 7.95% of the excess over $39,900

Sec. 11. 36 MRSA §5402, sub-§1-B, as enacted by PL 1999, c. 731, Pt. T, §8 and affected by §11, is amended to read:

1-B. Cost-of-living adjustment. The "cost-of-living adjustment" for any calendar year is the Consumer Price Index for the 12-month period ending June 30th of the preceding calendar year divided by the Consumer Price Index for the 12-month period ending June 30, ~~2001~~ 2010.

Sec. 12. 36 MRSA §5403, as amended by PL 2009, c. 213, Pt. WWW, §1 and affected by §2, is further amended to read:

§5403. Annual adjustments for inflation

Beginning in ~~2002~~ 2011, and each subsequent calendar year thereafter, on or about September 15th, the State Tax Assessor shall multiply the cost-of-living adjustment for taxable years beginning in the succeeding calendar year by the dollar amounts of the tax rate tables specified in section 5111, subsections ~~1-B~~ 1-C, 1-D, ~~2-B~~ 2-C, 2-D, ~~and 3-B~~ 3-C and 3-D. If the dollar amounts of each rate bracket, adjusted by application of the cost-of-living adjustment, are not multiples of $50, any increase must be rounded to the next lowest multiple of $50. If the cost-of-living adjustment for any taxable year would be less than the cost-of-living adjustment for the preceding calendar year, the cost-of-living adjustment is the same as for the preceding calendar year. The assessor shall incorporate such changes into the income tax forms, instructions and withholding tables for the taxable year.

~~Beginning in 2009 and each subsequent calendar year thereafter, the assessor shall reduce the cost-of-living adjustment by an amount that increases estimated noncorporate income tax revenue by $10,500,000 for that calendar year using as a benchmark the most recent revenue projections of the Revenue Forecasting Committee established in Title 5, section 1710-E.~~'

R. of S.

SUMMARY

This amendment replaces the bill and establishes individual income tax rates at 0%, 6.5% and 8.5% for tax years beginning on or after January 1, 2012. It reduces the highest income tax rate of 8.5% to 7.95% for tax years beginning on or after January 1, 2013. The amendment requires that revenue that exceeds the General Fund appropriation limitation and unappropriated surplus of the General Fund be used to gradually increase by 20% the income tax bracket thresholds at which higher income tax rates apply and to reduce the highest income tax rates to 4.5% over time to eventually establish one income tax rate.

FISCAL NOTE REQUIRED

(See attached)

Revised: 06/10/11 mac

125th MAINE LEGISLATURE

LD 849 **LR 149(02)**

An Act To Provide Tax Relief for Maine's Citizens by Reducing Income Taxes

Fiscal Note for Bill as Amended by Committee Amendment "A" S-308
Committee: Taxation
Fiscal Note Required: Yes

Fiscal Note

	FY 2011-12	FY 2012-13	Projections FY 2013-14	Projections FY 2014-15
Net Cost (Savings)				
General Fund	$11,852,200	$52,932,100	$89,575,500	$93,487,600
Revenue				
General Fund	($11,852,200)	($52,932,100)	($89,575,500)	($93,487,600)
Other Special Revenue Funds	($623,800)	($2,785,900)	($4,714,500)	($4,920,400)

Fiscal Detail and Notes

This bill establishes individual income tax rates at 0%, 6.5% and 8.5% for tax years beginning on or after January 1, 2012, reducing the highest income tax rate to 7.95% for tax years beginning on or after January 1, 2013. This will reduce Individual Income Tax revenue by the amounts in the table below and will reduce General Fund revenue and transfers to the Local Government Fund for revenue sharing.

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Individual Income Tax Revenue	($12,476,000)	($55,718,000)	($94,290,000)	($98,408,000)

The additional administrative costs to Maine Revenue Services associated with implementing the new tax brackets and rates can be absorbed within existing budgeted resources.

In addition to the effects on budgeted revenue, this bill also requires that 40% of any General Fund revenue exceeding the General Fund appropriation limitation as well as a portion of any uncommitted resources in the unappropriated surplus of the General Fund, also known as the Cascade, must be transferred at the close of each fiscal year to the Tax Relief Fund for Maine Residents. Based on currently budgeted revenue, no transfers of General Fund revenue in excess of the appropriation limitation are expected through the end of fiscal year 2014-15. However, if actual revenue in these or later fiscal years exceeds budgeted revenue leaving an excess for year-end distribution, this bill could have a substantial fiscal impact.

When funds are transferred, the State Tax Assessor must incrementally increase by 20% the income bracket thresholds at which higher income tax rates will apply and ultimately reduce the highest income tax rates down to 4.5% utilizing the excess, surplus or both for that purpose. Any changes to the income bracket thresholds and income tax rates under this bill are self-funding in the short term but not in the long term, since the new bracket thresholds and tax rates would reduce revenue in future fiscal years without a corresponding offset. As a result, the existence of an unappropriated surplus could trigger the tax reduction provisions in the bill and reduce General Fund revenue in all future fiscal years to an extent not determinable at this time. Further legislation would be required to establish a transfer mechanism in order for the State Tax Assessor to access the reserves for the transfers contemplated by this bill.