

MAINE STATE LEGISLATURE

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MAJORITY AND MINORITY REPORTS

To 89th Legislature Recess Committee
of 88th Legislature

ON INCOME TAX LEGISLATION

Received by the House of Representatives, and by the House ordered printed.

MAJORITY REPORT

To the Honorable Senate and House of Representatives:

A Committee was appointed under a Resolve passed by the Special Session of the Eighty-Eighth Legislature for the purpose of considering and investigating the necessity and desirability of legislation designed to raise revenue by means of an income tax. The Committee consisted of Senators Harvey A. Tompkins of Aroostook and George J. Wentworth of York, and Representatives Robert B. Dow of Norway, Howard S. Higgins of Ellsworth and John O. Newton of Readfield. Howard S. Higgins resigned from the Committee, and George H. Hinckley of South Portland was appointed to fill the vacancy.

The undersigned herewith beg leave to submit the following report:

Bills of various kinds have been submitted to previous Legislatures, and another bill known as the "Grange Bill" will undoubtedly shortly be presented to the Eighty-Ninth Legislature by initiation. These bills all have some merit, and if an income tax measure is to be passed by the Legislature, they might well be seriously considered. The Grange Bill, so called, although ostensibly designed to relieve the burden on real estate, will not in our opinion accomplish that result. Although the bill sets forth that money shall be turned back to the towns and cities, there is very grave doubt in our minds that towns and cities will relieve real estate taxpayers in proportion to the amount that they receive from the State. On the contrary, past experience teaches that the towns and cities will find other urgent and legitimate purposes for which they may expend the money received, and that the real estate will not be relieved at all. Relief for real estate, moreover, is not the only matter which requires careful study on the part of the Legislature. Old Age Assistance is more and more pressing for attention, but under the Grange Bill no money received from that source may be used by the State to pay for Old Age Assistance, because none of it may be retained by the State. Therefore, the Grange Bill will not remedy this situation.

Assuming that an income tax should be enacted, it would be necessary, of course, to repeal the law relating to tax on intangibles. Although there is nothing in our law at the present time to indicate that intangibles should not be taxed on the same basis as other property, as a practical proposition they are not, but are taxed, if at all, at a very much lower rate, or on a lower valuation. At the present time the total receipts from taxes on intangibles amounts to about \$350,000 annually. Both the proponents and opponents of an income tax bill admit that this amount would be lost. The opponents also insist that the State would lose a large amount of revenue from inheritance taxes on estates of persons who now make their homes in Maine for the purpose of escaping income taxes in other states of the Union, from which they came. Although it is impossible to determine the amount accurately, estimates of income from this source run from \$300,000 to \$375,000. Proponents of the measure would deny that such residents would leave Maine if an income tax measure were established, but the opponents insist as fervently that it would be lost. No one can tell for certain, but it is fair to assume that some of it, at least, would be lost to the State. The oppo-

nents further insist that the number of such residents is increasing rapidly, and within a few years the amount received by the State will materially increase. If the argument of the opponents is good, then we shall lose, without question, about \$700,000 from loss on intangibles and inheritance taxes. If we add to that the expense of administration, the Legislature might well pause before trying out an income tax law, the revenue from which it is very difficult to estimate. The gross receipts from such a law are estimated from \$750,000 to \$1,500,000, leaving a net income of from \$50,000 to \$800,000.

A further matter for consideration is the wording of the platforms in the two major Parties of the State. Both of these platforms unequivocally state that they are opposed to any new taxation for the coming biennium. To enact any legislation at this time designed to raise taxation from new sources is to set at naught the solemn pledge of both Parties.

Taxation is a subject that has vexed every Legislature and will undoubtedly continue to do so. As new demands have been made, new forms and methods of taxation have been introduced, so that now our tax structure is a hodge-podge of almost all conceivable ideas. We have taken the original tax base and, like an old farm house, have added ells and outbuildings as convenience or necessity dictated. We are still confronted with the necessity of tacking on more structures, or tearing down the whole structure and building anew.

We have no fault to find with the theory of an income tax measure as such. The theory of many other forms of taxation is sound, but in our opinion the Legislature might well give heed to the desirability or even necessity of remodeling the whole tax system. It would be a tremendous undertaking, but it is our conviction that sooner or later that step will have to be taken, and our method of taxation put on a more sound and scientific basis.

For the reasons hereinbefore stated we are opposed at this time to adding an income tax measure to our already over-burdened population.

Respectfully submitted,

GEORGE J. WENTWORTH
ROBERT B. DOW
GEORGE H. HINCKLEY
Recess Committee on
Income Tax Legislation.

MINORITY REPORT

We the undersigned herewith submit the following report, in favor of a State Income Tax.

We feel very sure that the average taxpayer has little idea of the large amount of property escaping taxation under our present law. This exempt property means an increased burden upon the property which is subject to tax.

All visible and taxable property, such as land, houses and live stock, are bearing an unequal share of the public burden and the farmers especially are at present called upon to do more than their share.

This demand for a reduction in property tax and a broader tax base is not a partisan cry but a desire for a much needed reform which is very apparent from the messages to the various Legislatures recommended by the Governors of both parties during the last fifty years.

In the early part of our history, when practically all income was derived from land, the capital value of land was as good a measure as any of tax-paying ability. The demand for public expenditures at that time was small. With the development of modern times this situation has greatly changed.

Wealth no more consists of land, houses and other real estate. Some classes, notably the professional classes, require practically no property in the conduct of their business.

Our present property tax system, in many ways, penalizes industry and drives money from useful employment into hiding and into tax exempt securities.

Thirty-five years ago, the cost of running the state of Maine was three or four millions. Since then many new and necessary public services have been created so that now, it takes from thirty to forty millions and yet the growth of wealth and population has lagged far behind the mounting cost of government.

We have at present, in Maine, an intangible tax but it cannot be administered because it would be confiscatory.

It would seem that our citizens are justified in asking the question: "Why should half of the property of the state be assessed for nearly all the taxes, with the other half paying almost nothing. If it is true that about six hundred millions of dollars worth of real tangible property is levied upon and pays, to the local assessors, some twenty-four millions of dollars in taxes each year: and if it is also true that there is in Maine some six hundred millions of dollars worth of intangible property — equal in amount to the real — and which intangible property pays, very little or no tax at all to the local assessors?"

We have felt that for several years, a state income tax should be enacted and that the receipts therefrom should be applied to reduce the real property tax and we were never nearer to this attainment than in the closing hours of the 88th Legislature.

From a study of the various states and their tax systems, it would seem that Maine, Rhode Island, New Jersey and Florida are the only states along the East coast, that have no Income tax.

It would seem to us that, all states will ultimately have to have an income tax.

We feel there is a growing resentment against the exemption of so many public employees from payment of an income tax. Some do pay but the majority do not, giving them the advantage over private employees and this should be corrected.

As for the argument that a state income tax would cause a shrinkage in the receipts from Inheritance taxes, is not very convincing when we learn that for the last ten years, the yearly inheritance taxes have amounted to anywhere from five to seven hundred thousand dollars and it is stated on good authority that about 70% of this came from Maine families and the balance from those who chose Maine as a residence.

As to the constitutionality of a Maine Income tax — The Constitution of our State would lead us to believe, such a law constitutional, because, the State's power to tax is plenary.

Our Constitution does not mention, Inheritance tax, the poll tax or license taxes in general and since these are all valid, an income tax must also be valid.

The Maine State Grange are initiating a State Income tax Bill. We have given this Bill much careful consideration and for the reasons outlined above, we wish to go on record as giving this measure our approval.

If no other new source of tax revenue is found, it is evident that our real estate taxes must be increased to take care of additional Old Age Pensions, therefore, the passage of this Bill will be a real estate substitute tax measure.

Respectfully submitted,

HARVEY A. TOMPKINS, Chairman
JOHN O. NEWTON
Recess Committee on
Income Tax Legislation.