

Maine Issue Brief

Published by The Maine Heritage Policy Center

No. 16

A Plan to Reform and Reduce Maine's Taxes

June 6, 2007

by J. Scott Moody and Bill Becker

Mainers have been hit with a barrage of tax reform proposals from the Maine Legislature, but no clear plan that will reduce the Maine tax burden. The proposals beg the question, "Where's the beef?" Like the iconic Wendy's slogan, which was implemented to chastise their competitors for selling an inferior product, Mainers should be asking an analogous question, "Where's the tax reduction," in reference to the inferior tax proposals.

The Maine Heritage Policy Center has cut through the rhetoric and identified the "beef." The result is a straight-forward proposal that is transparent, boosts economic activity, and reduces Mainers' high taxes.

Table 1 shows the elements of the MHPC plan contrasted to the Taxation Committee plan. The Taxation Committee proposed a "revenue-neutral" plan that would reduce individual income and property taxes, paying for the cuts with increases in the corporate income and sales tax. However, the Taxation Committee is erroneously touting their plan as "tax reform." In fact, the damage done to the economy by expanding the sales tax is not offset by the reductions in the individual income and property taxes. [1] These negative economic effects also undercut the "revenue-neutral" moniker.

There is one element of the Taxation Committee plan that does make good policy—the reform of the individual income tax. The income tax proposal would enact a flat-rate of 6 percent and give taxpayers a choice of: (a) eliminating their deductions (standard or itemized) and exemptions in favor of a refundable tax credit; or, (b) keeping their itemized deduction (with a cap) and repeal of the Alternative Minimum Tax.

Therefore, MHPC proposes to provide Mainers with real tax reform and real tax reduction by keeping the Taxation Committee's individual income tax reduction but jettisoning the rest of the tax package. The result is an estimated \$218,807,000 in fiscal year (FY) 2009 for Maine taxpayers, greater economic activity, and a more simple tax code.

The income tax reduction can be funded in a "neutral" manner through expenditure adjustments. Two spending adjustments are: (a) reducing Medicaid spending per-recipient to the national average saving up to \$346 million[2]; or, (b) reducing the compensation gap between state government and private sector employees to the national average saving up to \$275 million[3]; or, (c) some combination of A and B. In any case, \$218 million in spending reductions to pay for real tax reductions is very achievable. For more spending reduction ideas, such as repealing the Dirigo Choice program, see the 2007 Maine Piglet Book. [4]

Contrary to the Taxation Committee plan, the MHPC plan would also be a boon to the Maine economy by returning precious economic resources back to the private sector. According to the well-respected STAMP model, a dynamic equilibrium model, the MHPC plan would quickly create up to 8,893 jobs, boost personal income by \$218,538,188 and boost capital investment by \$16,214,573 (see Table 2).[5]

Table 1
Comparison of MHPC and Tax Committee Plans

	Estimated Change in Tax (a)	MHPC Plan	Tax Committee Plan
Individual Income Tax Reduction	-\$218,807,000	Yes	Yes
Property Tax Reduction	-\$98,084,000	No	Yes
Corporate Income Tax Increase	\$6,820,000	No	Yes
Sales Tax Increase	\$310,071,000	No	Yes
Net Change In Taxes	--	-\$218,807,000	\$0

(a) Based on tax reform proposal dated May 30, 2007.

Source: Maine State Legislature and MHPC.

In addition to boosting the economy, the MHPC plan would also stimulate new tax revenue. As a result, the static estimated income tax plan cost provided to the Maine Legislature of \$218,807,000 is too high. As shown in Table 3, a “dynamic analysis” that considers the increased economic activity finds a lower cost of \$197,937,402—a reduction of \$20,869,598. The largest dynamic gain would accrue through the sales tax which would increase \$11,156,989.

Finally, a note on “tax exportability.” According the Taxation Committee plan, the increase in the sales tax would, in part, be paid for by out-of-state residents. The plan dated May 30, 2007 shows that approximately \$75 million in sales taxes would be “exported.” As such, the total tax burden on Mainers would fall.

However, it is not that straightforward. At the end of the day, the same number of tax dollars will be flowing into Augusta with or without the Taxation Committee’s plan. The notion of “tax exportability” is an educated guess subject to legitimate disagreements among tax experts. In fact, the Tax Foundation estimates that Maine is currently a net tax importer of \$116.8 million.[6]

Rather than confusing Maine taxpayers with tax policy jargon, policymakers should cut to the “beef.” The MHPC plan does just that, providing Mainers with tax reductions, tax reform, and improved economic activity.

Notes and Sources:

- [1] For more information on why expanding the sales tax is bad tax policy, see: [http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20-%202004.%20Issue%20No.%207%20\(final\).pdf](http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20-%202004.%20Issue%20No.%207%20(final).pdf)
- [2] For more information on these Medicaid savings, see: [http://www.maineconomy.org/Portals/0/Medicaid%20Watch%20Vol.%20-%202004.%20No.%201%20\(final\).pdf](http://www.maineconomy.org/Portals/0/Medicaid%20Watch%20Vol.%20-%202004.%20No.%201%20(final).pdf)
- [3] For more information on these compensation savings, see: [http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20-%202004.%20Issue%20No.%204%20\(final\).pdf](http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20-%202004.%20Issue%20No.%204%20(final).pdf)

Table 2 Estimated Dynamic Economic Benefits of MHPC Tax Reduction Plan	
	FY 2009
Private Employment	8,893
State Personal Income (\$ Millions)	\$218,538,188
Capital Investment (\$ Millions)	\$16,214,573
Source: STAMP model and MHPC.	

Table 3 Estimated Dynamic Tax Benefits of MHPC Tax Reduction Plan	
	FY 2009
Total Legislated Income Tax Reduction	-\$218,807,000
Dynamic Income Tax	-\$214,055,600
Dynamic Sales Tax	\$11,156,989
Dynamic Other Taxes	\$4,961,209
Total Dynamic Income Tax Reduction	-\$197,937,402
Net Revenue Feedback (Legislated Minus Dynamic)	\$20,869,598
Source: STAMP model and MHPC.	

[20Maine%20View%20-%20Vol.%20-%202005.%20Issue%20No.%204%20\(final\).pdf](http://www.maineconomy.org/Portals/0/Maine%20View%20-%20Vol.%20-%202005.%20Issue%20No.%204%20(final).pdf)

[4]

[5] For yet more ideas on state spending reductions, see “Maine Piglet” at: <http://www.maineconomy.org/Portals/0/Maine%20Piglet%202007.pdf>

[6] STAMP Model methodology: <http://www.maineconomy.org/Portals/0/Maine%20STAMP%202006%20Beacon%20Hill%20Institute.pdf>

J. Scott Moody is vice president of policy and chief economist for The Maine Heritage Policy Center. Bill Becker is president and chief executive officer for The Maine Heritage Policy. The authors can be reached at jmoody@mainepolicy.org and wbecker@mainepolicy.org.

Maine Issue Brief is a publication of The Maine Heritage Policy Center that provides research and commentary on current public policy issues. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

The Maine Heritage Policy Center is a 501 (c) 3 nonprofit, nonpartisan research and educational organization based in Portland, Maine. The Center formulates and promotes free market, conservative public policies in the areas of economic growth, fiscal matters, health care, and education – providing solutions that will benefit all the people of Maine. Contributions to MHPC are tax deductible to the extent allowed by law.

© 2007 The Maine Heritage Policy Center

Material from this document may be copied and distributed with proper citation.

Editor and Director of Communications, Jason A. Fortin

P.O. Box 7829
Portland, ME 04112
207.321.2550 (p)
207.773.4385 (f)

<http://www.maineconomy.org>
<http://blog.maineconomy.org>
info@mainepolicy.org

Additional MHPC Staff:

Tarren Bragdon
Director of Health Reform
Initiatives

Heather Noyes
Director of Development

Sandy Cleveland
Executive Assistant