Path to Prosperity

Published by The Maine Heritage Policy Center

Issue Six April 15, 2009

Questions and Answers on the Taxpayer Bill of Rights

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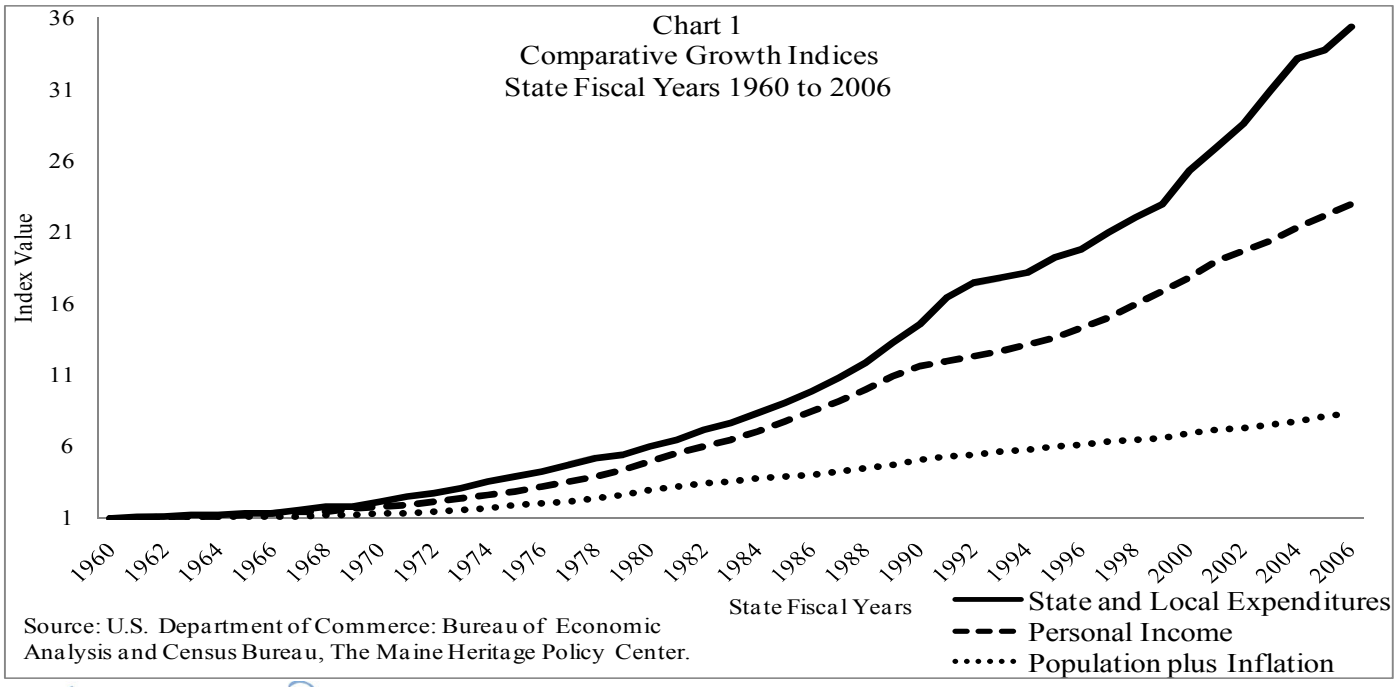
Q: What is the Taxpayer Bill of Rights[1]?
A: The Taxpayer Bill of Rights will set speed limits on the growth in state and local taxes and spending. First, any net tax increase that exceeds 0.01 percent of general fund revenue ($304,074 in FY 2008) will require a majority vote of each House of the Legislature AND a majority approval of the voters.[2]

Second, the annual growth in expenditures, including the General Fund, the Highway Fund and Other Special Revenue Funds, are limited to the increases in population (3 year average) plus inflation. Exceeding the limit will require a majority vote of each House of the Legislature AND a majority approval of the voters. Otherwise, any excess revenue over the limit is automatically distributed into a Budget Stabilization Fund (20 percent) and a Tax Relief Reserve Fund (80 percent).

The Budget Stabilization Fund may be used when revenues are not sufficient to fund the level of expenditures permitted by the growth limits; however, it cannot be used to exceed the growth limits. The Tax Relief Reserve Fund must be used to reduce tax revenue. If the Legislature does not proactively reduce taxes, then the Taxpayer Bill of Rights mandates tax refunds based on the number of personal exemptions claimed on the taxpayer's previous individual income tax form.

For local governments, the annual growth in expenditures is limited to the current LD 1 formulas—except that expenditure growth can never exceed real personal income plus inflation. Since property taxes are set based on expenditures, there is no separate limit on tax increases at the local level.

Q: Why do we need a Taxpayer Bill of Rights?
A: Chart 1 illustrates the need for a Taxpayer Bill of Rights by showing the comparative growth rates in state and local government expenditures, personal income and population plus inflation between fiscal year (FY) 1960 to 2006 (the earliest and latest data available, respectively).[3] The FY 2006 growth index for state and local expenditures is 54.1 percent higher than the growth index for personal income and 324.4 percent higher than the growth index for population plus inflation. More disturbingly, the gap between them is growing larger. Clearly the future growth in state and local expenditures will have to be slowed if personal income is ever going to catch up.



Q: Will the Taxpayer Bill of Right lower government spending from one year to another?
A: No, both the population and inflation adjustment factors have to be positive or zero—never negative. For example, if the inflation rate was 2 percent and the population rate was –1 percent then the overall adjustment factor would be 2 percent (2 percent inflation plus 0 percent population). As a result, spending will never go down under a Taxpayer Bill of Rights. That being said, the Taxpayer Bill of Rights does not prevent a cut in spending beyond the current legislative process.

Q: Will the Taxpayer Bill of Rights eliminate vital government services such as fire and police?
A: No, for a couple of reasons. First, as noted previously, the Taxpayer Bill of Rights does not reduce overall spending. Second, fire and police, in particular, make-up only 7 percent of local government spending—only $211 per person in fire and police versus $3,008 per person in total local spending.[4] Therefore, there is nothing in the Taxpayer Bill of Rights that mandates any cuts to fire and police. Nor is it likely that fire and police would ever bear the brunt of any spending reduction because that is not where the money is.

Q: Will the costs of having special elections under a Taxpayer Bill of Rights will unfairly burden local governments?
A: No, the Taxpayer Bill of Rights requires the state to reimburse the towns for the costs of a special election.

Q: Why do some critics claim that the Taxpayer Bill of Rights is an irrational way to set the State budget?
A: Actually, the way we set the state budget today is the irrational way to do it. In fact, the current $840 million General Fund deficit is mostly due to runaway spending. For instance, between 2009 and 2010, the state was planning to grow spending by an astounding 7.8 percent—or 530 percent higher than the projected 1.5 percent growth in population plus inflation.[5] In contrast, the Taxpayer Bill of Rights puts into place a system where yearly growth in spending occurs in an orderly and reasonable fashion without the irrational highs and lows that plague the current budgetary system.

Notes and Sources:

[1] To view the model legislation for the Taxpayer Bill of Rights, see: http://www.mainepolicy.org/library/resources/90.pdf

[2] For a more in-depth discussion of the tax provisions, see: J. Scott Moody, "220 Million Reasons Why the Taxpayer Bill of Rights Helps Maine's Beleaguered Taxpayers," The Maine Heritage Policy Center, Fiscal Sanity, Issue Eight, February 23, 2009. http://www.mainepolicy.org/library/resources/135.pdf

[3] The comparative growth indices shown in Chart 1 were created by setting the base year (FY 1950) equal to one and then multiplying each successive year by the growth rate. This makes it easier to visualize the relative growth differentials without worrying about the differences in the starting values.

[4] For a more in-depth discussion on state and local expenditures, see: J. Scott Moody, "Maine Spends too Much . . . But Where?" The Maine Heritage Policy Center, Fiscal Sanity, Issue One, November 12, 2008. http://www.mainepolicy.org/library/resources/123.pdf

[5] For a more in-depth discussion on state spending, see: J. Scott Moody, "Putting the State Budget Deficit in Perspective," The Maine Heritage Policy Center, Fiscal Sanity, Issue Four, January 14, 2009. http://www.mainepolicy.org/library/resources/128.pdf and Stephen Bowen, "Where the Money Is: The Top 40 Fastest-Growing General Fund Programs in Maine Government, FY 2000-FY 2009," The Maine Heritage Policy Center, Fiscal Sanity, Issue Three, January 8, 2009. http://www.mainepolicy.org/library/resources/127.pdf

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