

**JOINT STANDING COMMITTEE ON TAXATION**

**SUMMARY  
SUBCOMMITTEE MEETING -- October 12, 2011  
Room 127 - State House, Augusta**

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**Background and Overview**

The Joint Standing Committee on Taxation formed a 3-member subcommittee to hold discussions with individuals in the private, public and non-profit sectors. The subcommittee's goal is to gain additional insight into problems that may exist in Maine's current tax laws and to identify possible areas of needed reform. The subcommittee organized a series of 5 small group discussions including participants such as certified public accountants, economists, tax attorneys, leaders in business and higher education, representatives of chambers of commerce and members of the economic development community. The first 3 discussions were held on September 26, 2011, and the fourth discussion (summarized below) was held on October 12, 2011. The last discussion is scheduled for November 9, 2011 at 9:00 a.m.

The discussion on October 12<sup>th</sup> opened with introductions and a brief history of recent tax reform efforts (provided by Senator Woodbury) and was followed by a time for opening thoughts, discussion and a wrap-up.

This summary provides highlights of the discussion and is not intended to be meeting minutes.

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**Subcommittee Members**

- ❖ Senator Richard G. Woodbury, Subcommittee Chair
  - ❖ Representative L. Gary Knight
  - ❖ Representative Donald E. Pilon
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**8:30 a.m. – 10:30 a.m.**

**Small Group Session #1\***

- ❖ Albert J. DiMillo, Jr., CPA
- ❖ Charles "Wick" Johnson, Kennebec Technology
- ❖ Laurie Lachance, Maine Development Foundation
- ❖ Christopher S. McLoon, Verrill Dana
- ❖ Gary D. Vogel, Drummond Woodsum

**Opening Thoughts**

**Albert J. DiMillo, Jr.** – Mr. DiMillo opened by stating that the biggest issue is property taxes. He provided written analysis and related exhibits, (Attachment A) and walked the group through his analysis. He suggested that it is a common myth that Maine has a low sales tax. As noted in exhibit 1, "consumption taxes" in Maine are 21<sup>st</sup> highest in the country as compared to other states. Income tax rates are more important for the top 1% of Maine residents by income while property taxes are a bigger burden for the bottom 99%. Regarding exporting taxes, Mr. DiMillo suggested that Maine exports enough as exhibit 3 shows 28% of taxes are paid by non-residents.. Related to income taxes, he stated that no one pays a tax rate of 8.5% when you look at the effective tax rate and referred to exhibit 6,

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\* Participants' biographical information is available at: [www.maine.gov/legis/ofpr/taxation\\_committee/interim\\_schedule/2011\\_10\\_12\\_bios.pdf](http://www.maine.gov/legis/ofpr/taxation_committee/interim_schedule/2011_10_12_bios.pdf).

which shows that even the top 1% of Mainers have an effective tax rate of 4.01%. Exhibit 7 compares the impact of various tax cuts on spending. Mr. DiMillo suggested that increasing the Circuitbreaker property tax rebate is a better way to stimulate the economy than tax cuts such as those recently passed. Mr. DiMillo referred to exhibit 8 noting that property taxes are equivalent to a 25% gross tax rate and the excise tax is equivalent to 38%. Mr. DiMillo concluded his remarks by stating that cutting the income tax rate and expanding sales tax is not the way to go.

**Christopher S. McLoon** – Mr. McLoon stated that any tax system has to be equitable, fair and efficient to be viable in the long run. Tax systems should have horizontal and vertical equity; taxpayers in similar situations have similar tax burdens and taxpayers' income tax rate should increase as their income increases. He indicated that the overall system in Maine is more regressive than it should be and changes to the laws should reverse the regressive aspects. He suggested that the Committee should focus on income and property taxes rather than expanding sales tax. Expanding the Circuitbreaker is desirable in providing property tax relief. Related to attracting business, people are more concerned about the general business climate, not just taxes. Mr. McLoon noted that costs related to transportation, energy, and health care can play a bigger role in business investment decisions than taxes. Many are willing to pay a higher rate if it is a great place to do business but may not be willing to pay that rate if the other factors related to the business climate are poor.

**Laurie Lachance** – Maine Development Foundation (MDF) surveyed businesses last year and found top issues related to capital investment are cost of health care, energy, and regulatory policy implementation.<sup>†</sup> Income tax was listed fourth in survey results and property taxes ranked lower than that. Personal property taxes on business equipment has been addressed by the Legislature, and some progress has been made in area of income taxes. Ms. Lachance provided a handout (Attachment B) on Maine personal income and General Fund revenue that illustrates the volatility of State revenue. Ms. Lachance stated that when the economy is strong Maine collects an inordinate amount of taxes due to structure of sales and income tax. When the economy weakens the revenue dries up more rapidly than the economic downturn would suggest. She suggested that this affects government's ability to provide critical services during times of need. For the long-term prosperity of Maine, the Committee should consider how to stabilize revenue flow so that needed services and long-term investment are not so severely affected during recessionary periods. Ms. Lachance recognized that this is difficult when a third of sales tax revenue comes from building supplies and automobile sales, which are revenue lines that significantly drop during a recessionary period. While property taxes are most stable source of revenue, there are ways to adjust the income tax and sales tax to create more stability. Ms. Lachance suggested that tax reform should be comprehensive, keep stability in state mind and should provide for long-term investment in the State.

**Charles "Wick" Johnson** – Mr. Johnson indicated that the State's income tax structure should be progressive, but should also allow Maine to be competitive compared to other states. The top rate kicks in at income level that is too low. We don't want to have people leave the State when they retire. He suggested that comprehensive reform is needed such as the effort the State went through with workers compensation reform. He believes that the sales tax needs to be addressed due to stability and predictability, but also due to fairness. Mr. Johnson suggested more exporting to nonresidents such as skiing. There may be ways to reward investment such as giving ski areas or golf areas tax breaks

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<sup>†</sup> See MDF website at: [www.mdf.org/publications/Making-Maine-Work---Critical-Investments-for-the-Maine-Economy/285/](http://www.mdf.org/publications/Making-Maine-Work---Critical-Investments-for-the-Maine-Economy/285/) for report with survey results.

## **JOINT STANDING COMMITTEE ON TAXATION**

related to capital investment in exchange for sales taxes. Fairness, predictability and stability should be goals.

**Gary D. Vogel** – Mr. Vogel stated that there are many factors are involved in business decisions, but taxes are a big part of the perception that Maine is an expensive place to do business. He outlined four broad goals for tax reform: 1) encourage business formation and capital investment; 2) reduce cyclical nature and create more stability for collection; 3) be fair and progressive including addressing property taxes; 4) do no harm- don't create additional problems and watch out for unintended consequences. Mr. Vogel believes lowering the income tax rate is desirable but it is just as important to address the low level at which the highest rate kicks in. He also suggested that the capital gains rate should be lower by treating capital gains differently than regular income. This creates incentive for investment. Regarding the estate tax, he noted that decoupling from the federal code made Maine less competitive. He suggested broaden the sales tax and consider separating the lodging tax from the meals tax. He noted that lodging tax and rental car tax in Maine are relatively low compared other states. The meals tax affects more Maine residents and by separating it from the lodging tax there may be more opportunity for exporting taxes. He suggested that the Committee look broadly at tax reform to find ways to make the system fair and raise revenue without negatively impacting business.

### **Group Discussion**

There was significant discussion about sales tax, including some discussion of the people's veto and the message it sent. The conversation also covered lower income tax rates, conformance with federal tax law, simplification and tax expenditures. (Please note these highlight are not intended to suggest there was consensus on any of the ideas discussed.)

**Sales tax** –Some group members see broadening the tax as a means of decreasing volatility in revenue. Ideas mentioned included eliminating exemptions or broadening the sales tax to all groups and lowering the rate to 2% or 3%. Another suggested was to limit exemptions to certain policy choices such as education, health care and manufacturing and lower the rate or redirecting the additional revenue to lower property taxes. A local option tax was also discussed as trade-off for a lower state sales tax rate or property tax relief. Another idea mentioned was providing fees to businesses for collecting the sales tax.

**Income tax** – There was discussion of simplification of the income tax laws such as taking a percentage of federal adjusted income tax or eliminating deductions. There was some discussion of the downside of eliminating deductions such as medical expenses, charitable giving and mortgage interest. Suggestions related to changing income tax laws included conformity with the federal code, lowering the rate to 4% and looking at income tax changes as part of comprehensive reform.

**Property tax** – Continued concern about property taxes was expressed in the discussions related to income and sales taxes, and included ideas such as using local option sales tax or additional revenue from sales tax to provide property tax relief.

**Simplification** – There was considerable dialogue about simplification. Related to income taxation, it was noted that much of the complexity is determining what is counted as income. Some group

members believe that the income tax filing process in Maine is not overly complex for the majority of taxpayers. The complexity is there for specific reasons such as providing certain incentives, meeting particular social goals or may be related to certain types of partnerships or business structure. Sales tax exemptions were mentioned as something that makes sales taxation more complex and it was suggested interpreting exemptions could be complex as well. It was suggested that there may be areas for simplification in the sales tax collections process. Also, one group member stated that while the property tax is the easiest to pay it is the most complicated tax in Maine in its calculation.

***Tax Expenditures*** – Conversations around tax expenditures occurred primarily in the context of other discussions related to sales tax or income tax. Suggestions included: reduce sales tax exemptions in exchange for lower rates or property tax relief, and eliminate income tax deductions or credits in exchange for a simpler code with a lower rate.

***Estate Tax*** – There was a suggestion for a carve out for family farms and businesses instead of the higher exemption that was recently passed.

**Wrap-up** - emerging themes during this discussion:

- ❖ There are many factors that affect the business climate including the cost of health care and energy, regulatory climate and taxation. The business community may be more interested in working on issues other than taxation at this time.
- ❖ Many group members believe more stability in the State revenue is important.
- ❖ Some group members believe simplification may not be desirable in all cases. The complexities may be necessary to execute desired policy.
- ❖ Changes to tax expenditures may need to be considered in the context of an “exchange” for lower sales or income tax rates or property tax relief.
- ❖ Property taxes continue to be mentioned as a concern. Several group members express support for lower income tax rates and a broader sales tax base.

# Attachment A

**To: The Joint Standing Committee on Taxation and its Subcommittee**

**From: Albert A. DiMillo, Jr., Retired Corporate Tax Director & CPA**

**Subject: Written Testimony on Maine "Tax Reform" – 10/12/11**

Good morning Senator Woodbury and Representatives Knight and Pilon. I appreciate the opportunity to speak today concerning the subcommittee's work on exploring Maine "tax reform". Over the past 30 months, I have given testimony to the taxation committee and its subcommittees several times. As a retired Corporate Tax Director and CPA with more than 30 years of tax experience, I believe I have more hands on experience with both Maine's tax system and other states than any other individual your subcommittee will hear from. The first 17 years of my experience included working with major Maine Corporations and individuals including over seven years as the Director of Taxes and Chief Tax Officer of Bath Iron Works. I then worked in senior management positions with two international corporations headquartered in Massachusetts including 7 years managing all Federal and state taxes as the Director of Income Taxes and Audits for Raytheon Company (\$20 billion in sales).

In 2009, I testified against the original so called "Tax Reform" proposal that I believed was a poorly designed plan that would have increased taxes for too many and given wind-fall tax cuts to taxpayers with annual income over \$350,000. Over a period of about a year, I tried to educate Mainers on the tax laws. What I found was that vast majority of Maine taxpayers, legislators, economists, business groups and business leaders did not understand the details of Maine's tax laws. Many groups did then and continue today to grossly overstate the real impact of Maine's income tax on business development and understate the impact of property taxes.

## ANALYSIS OF CURRENT MAINE TAXATION STRUCTURE

On August 15th, 2011 Dr. Michael Allen gave the full taxation committee an excellent presentation on a distribution analysis of Maine's state & local tax system. I plan to refer to the numbers in Dr. Allen's study to make my opinions known on "tax reform". I understand that others may not agree with my conclusions based on the data, however, at least my opinions will be based on factual data not myths. I listened to the testimony given by the first three groups to this subcommittee and again, many of those who testified

gave opinions based on factually incorrect data or myths. I respectfully suggest that this subcommittee and the full taxation committee needs to fully study and understand Dr. Allen's study before it moves forward with any real action on "tax reform".

I agree that Mainer's total tax burden is too high and efforts to reduce total taxes on both Maine individuals and businesses are a worthy goal. In April of this year the taxation committee proposed numerous tax changes that reduced Maine income taxes, but it also increased its property taxes by cutting the circuit breaker program by 20%. The full legislature changed the taxation committee's proposed plan and in my opinion made it more regressive and greatly reduced the tax benefit to most Maine taxpayers. I understand that developing a plan that reduces the taxes fairly to all groups is a challenge, but I believe that fair "tax reform" is possible, but only if it is based on facts and is not overly influenced by partisan politics and special interest group lobbyists.

I will now try to give you the facts and my opinion on what those facts tell me about "tax reform" and what might be good for the vast majority of Maine residents and the state as a whole. Unlike most of the individuals who testify before the taxation committee, I am not paid by or represent any special interest group. I am here representing all taxpayers in Maine and only wish to see fair "tax reform" based on actual facts and sound tax policy.

**Exhibit 1** is a summary of information from the US Census Bureau for the year 2007. It illustrates that as a percentage of income, Maine's total state tax collections were 7<sup>th</sup> highest out of the 50 states and DC. However, it also illustrates that while Maine's income tax was 17<sup>th</sup> highest, it was its property tax at 6<sup>th</sup> highest that was both the highest in dollar amount and highest ranking as compared to the other states and DC. It also shows that Maine's consumption taxes (sales taxes) ranked 21<sup>st</sup> highest in the country, which debunks the common myth that Maine's sales taxes are too low as compared to other states.

**Exhibit 2** comes from Dr. Allen's August 15, 2011 presentation to the taxation committee. It illustrates that Maine's taxes on income and consumption are about the same at 28.3% and 28.4% respectively, while its property tax represents 42.7% of state and local tax collections.

Using more detail information in Dr. Allen's study, I prepared **Exhibit 3**. It summarizes various schedules in his study and breaks down the taxes paid directly by Maine residents and divides it into two groups, the top 1% of Maine residents by income and the bottom 99% of Mainers. When you look at the bottom 99%, you find that these residents pay about the same in income taxes and consumption taxes, but pay significantly more in property taxes. On the other hand, the top 1% pays significantly more in income taxes than both the consumption and property taxes combined. This exhibit also illustrates that the top 1% pay taxes at an effective tax rate that is 35% lower than the effective tax rate of the bottom 99% of Mainers.

Many business leaders, economists and others have suggested that "tax reform" should include reducing the top income tax rate and increasing sales taxes. **Exhibit 3** clearly illustrates that those proposals would be good for the top 1% of Mainer's and bad for the bottom 99%. With the top 1% (who average over \$700,000 a year in income) already paying taxes at 35% less than the bottom 99%, why would any reasonable person who cares about all Maine residents believe this is fair "tax reform"?

**Exhibit 3** also illustrates that the total state and local tax cost to residents of Maine was \$3.6 billion out of total collections of \$5.0 billion or 72% of total tax collections. Many economists and others argue that Maine needs to export more of their tax collections to non residents who benefit from visiting Maine without paying their "fair share" of taxes. How much more do these individuals believe is "fair", why is exporting 28% or about \$1.39 billion not enough?

Some might question my grouping of the income groups into just two groups, so **Exhibit 4** splits up the total state and local taxes paid directly by Maine residents into seven groups of taxpayers by income levels. It illustrates that the top 1% have an effective tax rate of 6.64%, while the six other income tax groups have effective tax rates from 10.14% to 8.42%. **Exhibit 5** is the same as Exhibit 4, except that it allocates to Maine residents taxes paid by businesses and deemed passed on to residents as part of the cost of goods and services purchased by residents.

Many economists and business leaders argue that Maine's top marginal tax rate of 8.5% was a major deterrent to small business economic growth. In response to this myth, the legislature just reduced the top marginal tax rate starting in 2013 from 8.5% to 7.95%. Others including some members of

the taxation committee have suggested that a flat income tax rate around 4.5% without deductions would be beneficial to small business development. **Exhibit 6** summarizes the effective Maine income tax cost to various income groups (based on Dr. Allen Maine Revenue Services report). This exhibit illustrates that 95% of Maine residents have an effective tax rate cost below this 4.5% rate. In addition, even the top 1% of Mainers with average income over \$700,000 have an effective Maine income tax rate of only 4.01% (after benefit of the Federal income tax deduction of the Maine tax).

Less than 1% of small businesses in Maine have income taxed at the individual level and have income in the top 1% or over \$323,341. The bottom 99% of Mainers had an effective average income tax cost of only 2.66% and even those taxpayers in the 95% - 99% group (income average of \$197,2020) only had an effective tax cost of 3.92%. This cost is based on the 2009 law and with the 2013 income tax cuts passed this year the effective tax rate will go down. Why would a lower rate be needed to incentivize small business? In addition, the Maine legislature has established "Pine Tree Zones" which drastically reduce income taxes and other taxes based on business expansion and job creation. To date these tax incentives have had very little impact, so why would dropping the top income tax rate for all taxpayer's without any connection to job creation or economic development make any sense?

#### ANALYSIS OF 2011 MAINE TAX LAW CHANGES

The 2011 tax law changes included significant income tax cuts that impacted all income tax groups. It also included a very large reduction in the estate tax all starting in year 2013. While there are various opinions on whether most of the cuts were "fair" and proportional to all income groups, I will not address those opinions here, but rather want to look at the potential economic impact in Maine. The Governor and others point out that these tax cuts will stimulate the economy as Mainers have more cash in hand to spend in Maine. While I believe the economic impact of this spending will not be that significant, one needs to know that not all tax cuts are equal in terms of the net cash that might be spent in Maine.

**Exhibit 7** attempts to estimate the actual net cash that might be spent in Maine from various tax cuts. By far the most effective tax cut would be an increase in the circuit breaker property tax rebate, which results in about

90% of the tax cut being spent in Maine. This compares to about 59% being spent in Maine from a cut in the top income tax rate. The comparable amounts for a tax cut for millionaires and the estate tax cut result in only about 31% and 7% of the tax cut being spent in Maine. Despite these numbers the legislature increased property taxes by cutting the circuit breaker program by 20% and passed an ill advised estate tax cut.

### **TAX REFORM - SIMPLIFICATION**

Many have suggested that one goal of tax reform needs to be simplification of Maine's tax system. The question is do we really need a simple tax system and does it make it better? Second do we want the tax system simple for the taxpayers or for the tax administrators or both? With regard to the first question, even if Maine's taxes are complex, we should not make the system simple just for simplicity sake. If certain rules make the system more equitable or accomplish a worthy goal, then we should not simplify those rules. It is also curious how so many people feel taxes should be simple, but have no problem with how difficult it is to fix a car, computer, appliance or many other everyday items. Sometimes taxes need to be complex to work effectively and if we are willing to pay someone to do simple tasks like mowing our lawn or cutting our hair, why not pay someone to prepare our taxes.

**Property Tax** - The property tax is the simplest tax system for taxpayers. The taxing jurisdiction (city, town or state) calculates the tax and sends you a bill. However, the system is not simple for the taxing authorities. Property tax is based on a yearly fair market value of the property and the estimation of those values is not easy and subject to large assessment errors. Under state law the assessed value of two equal valued properties need only be within 20% of each other to be deemed correct. This means properties can be valued up to 10% over the proper value and another property can be under assessed by 10%. In many taxing jurisdictions equally valued properties are assessed with much larger variations than the stated 20% variance allowed under state law. To avoid the large variations in assessments the taxing jurisdiction would need to revalue properties every few years. Most cities and town avoid revaluations because of the cost involved.

**Individual Income Tax** – Maine's individual income tax system despite the myth to the contrary is relatively simple for taxpayers, because most of the calculations determining taxable income flow from the Federal tax return. In addition, the administration of the system from the state is also relatively simple. Many have tried to push the myth that Maine's individual tax system is complicated and that somehow, a flat tax would make it much simpler. After 2012, there are only two tax rates and converting to just one would not make the tax any significantly easier to prepare or to administer.

**Sales and Use Tax** - The sales tax in Maine is very simple for the consumer. The sales tax for the retail businesses can be complicated because of the many exemptions and odd rules and interpretations. The use tax can be complicated for businesses again because of the many exemptions and other rules. Clearly, the system could be simplified by eliminating many of the exemptions and other rules, but that would need to be balanced with whether the exemptions were justified.

The addition of a local option sales tax, which has been suggested by some would greatly increase the complexity and the cost of administration for businesses.

### **TAX REFORM – INCREASED EQUITY OR FAIRNESS**

There are vastly different opinions on how to gauge "Fairness" of the various taxes in Maine. Some believe a flat tax where all pay the same percentage is fair, while others believe that a progressive tax system is fairer because it is based on the ability to pay. As noted in **Exhibits 4 & 5**, Maine's total state and local tax collections are regressive as the lowest income taxpayers pay the highest percentage of their income and the percentage decreases as income goes up. The taxes on the top 1% are significantly less than the bottom 99%. What is much more perplexing is the fixation on lowering the top income tax rate (currently 8.5% and scheduled to decrease to 7.95% in 2013) by the business community and others despite the facts that the property tax, auto excise tax and the sales tax is assessed at much higher equivalent tax rates.

As noted in **Exhibit 6**, the overall effective income tax rate before reduction for the Federal income tax benefit was only 3.36% for all Mainers and just 5.3% for the top 1% earning over \$700,000 a year.

**Exhibit 8** calculates the equivalent tax rates for auto excise tax, property tax and sales tax. The property tax calculation is the easiest to understand. While most homes are not rental properties, a look at the rental income from homes in Maine reveals that yearly property taxes average from 20% to 30% of the gross rent. On average, property taxes equate to about a 25% gross income tax. Why do we believe an 8.5% maximum income tax rate on income after deductions is high, while a 25% tax on gross rental income before deductions is acceptable? Another way to calculate the equivalent income tax rate on property is to look at the property as an investment and calculate a acceptable income on the property and then to calculate the tax as a percentage of the deemed investment income on the property. Using a 6% investment return and the average state property tax rate of 1.5% a year results in an equivalent 25% tax rate ( $1.5\% / 6\% = 25\%$ ). Using similar calculations reveals that the auto excise tax is equivalent to a 38% income tax and the sales tax equates to a 22% income tax.

As stated above, what makes the property tax even more unfair than the income tax is that the difficulty in calculating the correct fair market value results in many properties being either grossly under valued or grossly over valued. Would taxpayers accept an income tax system where the state calculates your income and two taxpayers with the same income are billed \$2,700 and \$3,300 (the correct amount being \$3,000) and the taxpayer billed \$3,300 has no legal right to protest the bill because it is only 10% too high and only 20% more than another taxpayer with the same income.

While the auto excise tax averages only about \$250 a year for Maine families, it clearly is assessed at the highest equivalent tax rate. What makes the auto excise tax even more unjust is that unlike sales tax, it is assessed based on the auto's MSRP not its actual purchase price. Over the past 20 years very few vehicles were purchased at full MRSP. Most are purchased at least 10% off MRSP, yet Maine continues to use the full MSRP.

### **TAX REFORM – SUGGESTED CHANGES**

**1) . Increase the top income tax rate for taxpayers with taxable income over \$250,000 back to 8.5% in year 2013 when it is scheduled to be reduced to 7.95%. Less than 1% of Maine residents had taxable income over \$250,000 in 2009, accordingly this change would only impact the top**

1%. The Maine income tax system is progressive as noted in **Exhibit 6**. However, the current system reaches the top marginal tax rate at low income levels. Many middle income taxpayers who do not itemize deductions especially single individuals, pay taxes at higher effective tax and marginal tax rates than millionaires. **Exhibit 9** illustrates that a single taxpayer with just \$45,000 of income has both a higher top marginal tax rate and a higher overall effective tax rate than a family with \$900,000 of income.

**2). Use the tax revenue from item one above (about \$10 million) to increase the taxable income that is taxed at 6.5% under 2013 law.**

**3). Reverse the 2013 estate tax exemption increase from \$1.0 million to \$2.0 million for all taxable estates. Exempt estate assets that are in the form of family businesses or farms. The exemption would remain as long as those assets are not sold or transferred out of Maine for ten years.**

**4). Using the approximately \$20 million in revenue from item 3 above increase the property tax circuit breaker program. Also increase the income limit for eligibility from the current \$86,000 up to \$125,000.**

**5). Change the base for calculating the auto excise tax from current MSRP to actual cash price paid after any car dealer rebates. Also cut the tax rates for all years by 10%.**

**6). Eliminate or reduce various ineffective tax credits provided to businesses raising \$20 million to fund the excise tax cut (item 5 above).**

### **TAX REFORM – WHAT NOT TO DO**

The following ideas have been suggested and I believe would make Maine's tax system much worse. Accordingly:

**1). Do not establish a local option sales tax.**

**2). Do not increase the sales tax (both general and meals) rates (lodging taxes could be increased from 7% to 9%).**



**3). Do not increase sales tax revenue by eliminating sales tax exemptions or expansion of sales tax to services. (Elimination of exemptions offset by lower sales tax rates would be acceptable).**

**4). Do not cut the top income tax rate (except for income below \$125,000).**

**5). Do not eliminate or limit itemized deductions for individuals with income under \$250,000.**

**6). Do not eliminate the income tax on pensions as proposed by the Governor.** The vast majority of retirees in Maine pay substantially more in property tax than income tax. In fact, many retirees will pay no income taxes in year 2013. **See Exhibit 10.**

**7). Do not attempt to tax internet sales by businesses without nexus (business presence in Maine), as it will lead to costly litigation and will not prevail.** Maine law like most states have use tax provisions that require residents of Maine to pay the use tax on internet purchases. What Maine needs to do is to crack down on Mainers who don't pay the use tax. It's not out of state businesses' job to collect sales taxes that Maine residents legally are required to pay to Maine on their yearly income tax return.

I have tried to condense what should be a two hour presentation into ten minutes, so this analysis is far from complete. I would gladly meet with the committees at a later date if you wish.

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# EXHIBIT 1

## 2007 STATE & LOCAL TAX COLLECTIONS (50 STATES & DC)

STATE	PER CAPITA				TOTAL TAX AS % OF INCOME		TOTAL SALES TAX AS % OF INCOME (1)		INCOME TAX AS % OF INCOME		PROPERTY TAX AS % OF INCOME	
	TOTAL TAXES	RANK	PERSONAL INCOME	RANK	AS % OF INCOME	RANK	(2) RANK	AS % OF INCOME	RANK	AS % OF INCOME	RANK	
CT	6,044	5	51,658	2	11.7%	21	2.76%	44	3.51%	10	4.47%	8
ME	4,280	15	32,180	33	13.3%	7	3.99%	21	3.21%	17	4.85%	6
MA	4,966	8	45,981	4	10.8%	38	2.07%	46	3.83%	4	3.72%	19
NH	3,614	33	39,714	9	9.1%	51	1.41%	50	0.21%	43	5.59%	2
RI	4,545	13	37,875	17	12.0%	15	3.43%	39	2.72%	27	4.92%	5
VT	4,714	11	35,179	22	13.4%	6	3.91%	23	2.67%	30	5.64%	1
NATIONAL AVERAGE	4,234		36,421		11.6%		4.00%		2.64%		3.49%	

(1) - FOR PURPOSES OF COMPARISON, SALES TAX INCLUDED SALES TAX ON FUEL AND OTHER TAXES CLASSIFIED AS EXCISE TAX UNDER MAINE LAW. THE MORE CORRECT TERM WOULD BE CONSUMPTION TAXES.

(2) -THE ABOVE ILLUSTRATES THAT THE CLAIMS OF MANY THAT MAINE'S SALES TAX IS LOW WHEN COMPARED TO OTHER STATES IS FALSE AS IT IS HIGHER THAN 30 STATES.

WHILE MAINE HAS THE 7TH HIGHEST TOP MARGINAL TAX RATE IN THE US AT 8.5% IN 2007, ITS EFFECTIVE TAX RATE WAS ONLY 3.21% WHICH WAS LESS THAN BOTH MA AND CT EFFECTIVE TAX RATES, WHICH HAVE FLAT TAX AT 5.3% AND 5% RESPECTIVELY.

ALL OF THE ABOVE NUMBERS CAME FROM THE US BUREAU OF THE CENSUS AND BUREAU OF ECONOMIC ANALYSIS AND FROM THE FEDERAL TAX ADMINISTRATORS WEBSITE. WWW.TAXADMIN.ORG

Exhibit 2  
 Prepared by Maine Rev Svc  
 (Included in referenced  
 material provided by  
 Albert DiMillo  
 Oct 12, 2011)

**Table 3**  
**State and Local Tax Collections for CY09 Liability by Type of Tax and Taxpayer Category**  
**(Millions of Dollars)**

Tax Category	Collections		Percentage by Taxpayer Category			
	Total	Percentage Distribution	Individuals		Businesses	Total
			Resident	Nonresident		
<b>Taxes on Income</b>						
Individual Income Tax	\$1,266.4	25.3%	94.4%	5.6%	0.0%	100.0%
Corporate Income Tax /1	\$149.3	3.0%	0.0%	0.0%	100.0%	100.0%
Total Income Taxes	\$1,415.7	28.3%	84.5%	5.0%	10.5%	100.0%
<b>Taxes on Consumption</b>						
Sales & Use Tax	\$944.6	18.9%	61.4%	11.3%	27.3%	100.0%
Cig., Tob. & Alcohol Excise	\$161.0	3.2%	91.3%	8.2%	0.5%	100.0%
Insurance Companies Tax /2	\$82.3	1.6%	0.0%	0.0%	100.0%	100.0%
Motor Fuels Excise Taxes	\$234.4	4.7%	51.7%	8.6%	39.7%	100.0%
Total Consumption Taxes	\$1,422.3	28.4%	59.6%	9.8%	30.5%	100.0%
<b>Taxes on Wealth</b>						
Estate Tax	\$30.4	0.6%	79.6%	20.4%	0.0%	100.0%
<b>Taxes on Property</b>						
<i>Local</i>						
Homeowners (gross)	\$1,532.2	30.6%	84.6%	15.4%	0.0%	100.0%
Businesses (gross)	\$538.5	10.8%	0.0%	0.0%	100.0%	100.0%
Motor Vehicle Excise Tax	\$190.7	3.8%	70.0%	0.0%	30.0%	100.0%
Watercraft Excise Tax	\$2.4	0.0%	80.0%	20.0%	0.0%	100.0%
Homestead Exemption	(\$56.9)	-1.1%	100.0%	0.0%	0.0%	100.0%
Circuit Breaker Refunds	(\$42.5)	-0.8%	100.0%	0.0%	0.0%	100.0%
BETR/BETE Refunds	(\$71.4)	-1.4%	0.0%	0.0%	100.0%	100.0%
<i>State</i>						
State Property Taxes (gross) /3	\$26.3	0.5%	36.4%	7.7%	55.9%	100.0%
Public Utilities Tax	\$19.3	0.4%	0.0%	0.0%	100.0%	100.0%
Total Property Taxes	\$2,138.7	42.7%	62.7%	11.2%	26.1%	100.0%
<b>Total Taxes</b>	<b>\$5,007.1</b>	<b>100.0%</b>	<b>68.1%</b>	<b>9.1%</b>	<b>22.8%</b>	<b>100.0%</b>

1/ Includes Franchise Tax on Financial Institutions.

2/ Includes Fire Investigation and Prevention Tax.

3/ Includes Unorganized Territory Taxes, Real Estate Transfer Taxes, and Commercial Forestry Excise Tax.

EXHIBIT 4

SUMMARY OF TOTAL STATE & LOCAL TAXES PAID BY MAINE RESIDENTS DIRECTLY IN 2009 (EXCLUDES TAXES PAID BY BUSINESSES) (A)

DECILE	FAMILIES	INCOME RANGE	AVERAGE INCOME	AVERAGE MAINE				AVERAGE NET STATE & LOCAL TAXES				NET TOTAL STATE & LOCAL TAXES	% OF TOTAL
				PROPERTY TAX	SALES & EXCISE TAX	INCOME TAX	TOTAL TAX	% OF INCOME	FEDERAL TAX BENEFIT	AMOUNT	% OF INCOME		
BOTTOM 50%	336,917	UP TO \$30,810	15,116	746	681	115	1,542	10.20%	(10)	1,532	10.14%	620,938,030	16.82%
50% - 70%	134,767	\$30,811 - \$55,471	41,736	1,875	1,322	883	4,080	9.77%	(123)	3,957	9.48%	634,510,120	17.18%
70% - 80%	67,381	\$55,472 - \$74,757	64,552	2,666	1,490	1,793	5,949	9.22%	(361)	5,588	8.66%	451,311,440	12.22%
80% - 90%	67,383	\$74,758 - \$108,724	89,852	3,498	1,505	3,304	8,306	9.24%	(800)	7,507	8.35%	603,294,300	16.34%
90% - 95%	33,693	\$108,725 - \$145,201	124,091	5,336	2,095	5,292	12,724	10.25%	(1,948)	10,776	8.68%	430,791,400	11.67%
95% - 99%	26,952	\$145,202 - \$323,241	197,202	6,826	3,302	9,454	19,582	9.93%	(2,978)	16,604	8.42%	553,291,500	14.98%
TOP 1%	6,738	OVER \$323,241	733,600	9,930	11,754	38,854	60,539	8.25%	(11,811)	48,728	6.64%	398,519,700	10.79%
	673,831		52,774	2,004	1,259	1,775	5,037	9.54%	(480)	4,557	8.64%	3,692,656,490	100.00%
BOTTOM 99%	667,093	UP TO \$323,241	45,897	1,924	1,153	1,400	4,477	9.75%	(366)	4,111	8.96%	3,294,136,790	89.21%

(1) - THE BOTTOM 99% OF MAINE RESIDENTS PAY NET (AFTER FEDERAL TAX BENEFIT) AVERAGE STATE & LOCAL TAXES AT 35% HIGHER RATES THAN THE TOP 1%.

(2) - THE BOTTOM 99% OF MAINE RESIDENTS PAY NET (BEFORE FEDERAL TAX BENEFIT) AVERAGE STATE & LOCAL TAXES AT 18.2% HIGHER RATES THAN THE TOP 1%.

(A) - ALL NUMBERS ARE BASED ON THE MAINE REVENUE SERVICES REPORT PRESENTED BY DR. MICHAEL ALLEN TO THE TAXATION COMMITTEE ON AUGUST 15, 2011.

## SUMMARY OF TOTAL STATE &amp; LOCAL TAXES PAID BY MAINE RESIDENTS IN 2009 (INCLUDES TAXES PAID BY BUSINESS AND ADDED IN PRODUCTS SOLD TO RESIDENTS) (A)

DECILE	FAMILIES	INCOME RANGE	AVERAGE INCOME	AVERAGE STATE & LOCAL TAXES			AVERAGE NET STATE & LOCAL TAXES			TOTAL STATE & LOCAL TAXES	FEDERAL TAX BENEFIT	NET	
				AMOUNT	% OF INCOME	FEDERAL TAX BENEFIT	AMOUNT	% OF INCOME	TOTAL INCOME			TOTAL STATE & LOCAL TAXES	% OF TOTAL
BOTTOM 50%	336,917	UP TO \$30,810	15,116	1,853	12.26%	(10)	1,843	12.19%	5,092,900,000	624,175,080	(3,237,050)	620,938,030	16.82%
50% - 70%	134,767	\$30,811 - \$55,471	41,736	4,831	11.57%	(123)	4,708	11.28%	5,624,700,000	651,043,630	(16,533,510)	634,510,120	17.18%
70% - 80%	67,381	\$55,472 - \$74,757	64,552	7,059	10.94%	(361)	6,698	10.38%	4,349,600,000	475,669,200	(24,357,760)	451,311,440	12.22%
80% - 90%	67,383	\$74,758 - \$108,724	89,852	9,753	10.85%	(800)	8,953	9.96%	6,054,500,000	657,179,350	(53,885,050)	603,294,300	16.34%
90% - 95%	33,693	\$108,725 - \$145,201	124,091	14,734	11.87%	(1,948)	12,786	10.30%	4,181,000,000	496,433,100	(65,641,700)	430,791,400	11.67%
95% - 99%	26,952	\$145,202 - \$323,241	197,202	23,507	11.92%	(2,978)	20,529	10.41%	5,315,000,000	633,548,000	(80,256,500)	553,291,500	14.98%
TOP 1%	6,738	OVER \$323,241	733,600	70,956	9.67%	(11,811)	59,145	8.06%	4,943,000,000	478,102,000	(79,582,300)	398,519,700	10.79%
					(2)			(1)					
	673,831		52,774	5,960	11.29%	(480)	5,480	10.38%	35,560,700,000	4,016,150,360	(323,493,870)	3,692,656,490	100.00%
BOTTOM 99%	667,093	UP TO \$323,241	45,897	5,304	11.56%	(366)	4,938	10.76%	30,617,700,000	3,538,048,360	(243,911,570)	3,294,136,790	89.21%
					(2)			(1)					

(1) - THE BOTTOM 99% OF MAINE RESIDENTS PAY NET (AFTER FEDERAL TAX BENEFIT) AVERAGE STATE & LOCAL TAXES AT 33.5% HIGHER RATES THAN THE TOP 1%.

(2) - THE BOTTOM 99% OF MAINE RESIDENTS PAY NET (BEFORE FEDERAL TAX BENEFIT) AVERAGE STATE & LOCAL TAXES AT 19.5% HIGHER RATES THAN THE TOP 1%.

(A) - ALL NUMBERS ARE BASED ON THE MAINE REVENUE SERVICES REPORT PRESENTED BY DR. MICHAEL ALLEN TO THE TAXATION COMMITTEE ON AUGUST 15, 2011.

# EXHIBIT 6

## SUMMARY OF INCOME TAXES PAID BY MAINE RESIDENTS IN 2009 (A)

DECILE	FAMILIES	INCOME RANGE	AVERAGE INCOME	AVERAGE MAINE		AVERAGE FEDERAL TAX BENEFIT	AVERAGE MAINE NET	
				INCOME TAX	TAX RATE		INCOME TAX	TAX RATE
BOTTOM 50%	336,917	UP TO \$30,810	15,116	115	0.76%	(1)	114	0.75%
50% - 70%	134,767	\$30,811 - \$55,471	41,736	883	2.12%	(39)	844	2.02%
70% - 80%	67,381	\$55,472 - \$74,757	64,552	1,793	2.78%	(145)	1,647	2.55%
80% - 90%	67,383	\$74,758 - \$108,724	89,852	3,304	3.68%	(388)	2,915	3.24%
90% - 95%	33,693	\$108,725 - \$145,201	124,091	5,292	4.26%	(970)	4,322	3.48%
95% - 99%	26,952	\$145,202 - \$323,241	197,202	9,454	4.79%	(1,729)	7,725	3.92%
TOP 1%	6,738	OVER \$323,241	733,600	38,854	5.30%	(9,407)	29,447	4.01%
	673,831		52,774	1,775	3.36%	(274)	1,501	2.84%
BOTTOM 99%	667,093	UP TO \$323,241	45,897	1,400	3.05%	(181)	1,219	2.66%

(A) - ALL NUMBERS ARE BASED ON THE MAINE REVENUE SERVICES REPORT PRESENTED BY DR. MICHAEL ALLEN TO THE TAXATION COMMITTEE ON AUGUST 15, 2011.

# EXHIBIT 7

## COMPARISON OF PROPERTY TAX REBATE TO INCOME AND ESTATE TAX CUTS ON MAINE RESIDENTS - NET CASH SPENT IN MAINE

	CIRCUIT BREAKER PROPERTY TAX REBATE		TOP INCOME TAX RATE CUT		TAX CUT FOR MILLIONAIRES		ESTATE TAX CUT - YR 2013	
MAINE TAX CUT IN TOTAL	25,000,000		25,000,000		25,000,000		25,000,000	
TAX CUT GOING TO NON RESIDENTS	0 (A)		(1,400,000) (1)		(1,400,000) (1)		(5,100,000) (1)	
MAINE TAX CUT TO RESIDENTS	25,000,000		23,600,000		23,600,000		19,900,000	
LESS: FEDERAL INCOME TAX INCREASE (6)	(1,276,452) (1)		(3,807,666) (1)		(8,260,000) 35% (2)		(8,656,500) 43.5% (3)	
NET CASH TO MAINE RESIDENTS	23,723,548		19,792,334		15,340,000		11,243,500	
% OF TOTAL TAX CUT	94.9%		79.2%		61.4%		45.0%	
NET CASH ABOVE	23,723,548		19,792,334		15,340,000		11,243,500	
AMOUNT OF CASH SAVED OR SPEND OUT OF MAINE	(1,186,177) 5.0%		(4,948,083) 25.0%		(7,670,000) 50.0%		(9,556,975) 85.0%	
		(4)		(4)		(4)		(5)
NET CASH SPEND IN MAINE WITHIN TWO YEARS	22,537,371		14,844,250		7,670,000		1,686,525	
<b>% OF TOTAL TAX CUT SPENT IN MAINE</b>	<b>90.1%</b>		<b>59.4%</b>		<b>30.7%</b>		<b>6.7%</b>	

(A) - MAINE CIRCUIT BREAKER REBATE IS ONLY FOR RESIDENTS, NON RESIDENTS DON'T QUALIFY.

(1) - BASED ON MAINE REVENUE SERVICES ESTIMATES.

(2) - THE TOP FEDERAL INCOME TAX RATE FOR 2011.

(3) - 2013 FEDERAL ESTATE TAX RATES AVERAGE 43.5% FOR THE FIRST \$1.0 MILLION OF TAXABLE ESTATE OVER \$1.0 MILLION EXEMPTION.

(4) - VARIOUS STUDIES HAVE ESTIMATED THAT LOWER INCOME TAXPAYERS SPEND ALMOST ALL OF THEIR TAX CUTS, WHILE HIGHER INCOME TAXPAYERS TEND TO SAVE A MUCH LARGER PORTION OF TAX CUTS. THE CIRCUIT BREAKER REBATE IS LIMITED TO TAXPAYERS WITH INCOME UNDER \$87,000, AND LARGELY A LOW AND MIDDLE INCOME TAX CUT PROGRAM.

(5) - THIS NUMBER IS PROBABLY LOW AS MOST ESTATES ARE NOT SPENT IN THE SHORT TERM.

(6) - ALL OF THESE TAX CALCULATIONS ARE BASED ON CURRENT FEDERAL LAW. THE CALCULATIONS COULD CHANGE IF FEDERAL LAW CHANGES IN 2013.

# EXHIBIT 8

## COMPARISON OF SALES, EXCISE AND PROPERTY TAX TO INCOME TAX

### CALCULATION OF SALES & EXCISE TAX

YEAR	CAR VALUE	SALES TAX	(1) EXCISE TAX	PROPERTY TAX
YEAR 1	20,000	1,000	528	
YEAR 2	15,000	0	385	
YEAR 3	12,000	0	297	
YEAR 4	10,000	0	220	
YEAR 5	8,000	0	143	
YEAR 6	6,000	0	88	
YEAR 7	5,000	0	88	
		1,000	1,749	
<b>AVERAGE OVER 7 YEARS</b>	<b>10,857</b>	<b>143</b>	<b>250</b>	<b>163</b>
<b>AVERAGE TAX RATE</b>		<b>1.3%</b>	<b>2.3%</b>	<b>1.50% (2) (3)</b>
<b>EQUIVALENT INCOME TAX RATE</b>		<b>21.9%</b>	<b>38.4%</b>	<b>25.0%</b>
		<b>(A)</b>	<b>(B)</b>	<b>(C) (D)</b>

(A) - ASSUMING YOU INVESTED \$10,857 AND RECEIVED INCOME AT 6% YOUR YEARLY INCOME WOULD BE \$651. THE \$143 OF TAX ON \$651 OF INCOME WOULD BE 21.9%.

(B) - ASSUMING YOU INVESTED \$10,857 AND RECEIVED INCOME AT 6% YOUR YEARLY INCOME WOULD BE \$651. THE \$250 OF TAX ON \$651 OF INCOME WOULD BE 38.4%.

(C) - ASSUMING YOU INVESTED \$10,857 AND RECEIVED INCOME AT 6% YOUR YEARLY INCOME WOULD BE \$651. THE \$163 OF TAX ON \$651 OF INCOME WOULD BE 25.0%.

(D) - PROPERTY TAX ON MOST RENTAL PROPERTIES IN MAINE RANGE FROM 20% -30% OF GROSS RENTS.

(1) - ASSUMED MSRP OF \$22,000 AND PURCHASED AT SLIGHT DISCOUNT AT \$20,000. THE EXCISE TAX IS BASED ON MSRP NOT PURCHASE PRICE.

(2) - MAINE'S PROPERTY TAX RATES AS OF 2011 AVERAGE ABOUT 1.5% OF FULL FAIR MARKET VALUE OF PROPERTY.

(3) - UNDER MAINE LAW SIMILAR PROPERTIES ARE ALLOWED TO BE OVER VALUED AND UNDER VALUED BY 10% (COMBINED 20% DIFFERENCE) AND DEEMED TO BE ACCEPTABLE.



MAINE TOP MARGINAL AND TOTAL EFFECTIVE INCOME TAX RATE - 2010 LAWVARIOUS TAXPAYERS - YEAR 2010

FILING STATUS OVER AGE 65 EXEMPTIONS ITEMIZED DEDUCTIONS / STD DEDUCTION MAINE ADJUSTED INCOME	SINGLE NO 1 STD DED \$45,000	MARRIED NO 2 STD DED \$45,000	MARRIED NO 3 16,600 \$65,000	MARRIED NO 3 18,475 \$80,000	MARRIED NO 3 21,000 \$125,000	MARRIED NO 3 30,000 \$200,000	MARRIED NO 3 45,000 \$900,000
MAINE ADJUSTED INCOME (2)	45,000	45,000	65,000	80,000	125,000	200,000	900,000
FEDERAL EXEMPTIONS	(3,650)	(7,300)	(10,950)	(10,950)	(10,950)	(10,950)	(10,950)
ITEMIZED DED OR STD DED EXCLUDING STATE INCOME TAX	(5,700)	(11,400)	(16,600)	(18,475)	(21,000)	(30,000)	(45,000)
STATE INCOME TAX	0	0	(2,052)	(3,167)	(6,778)	(12,388)	(70,613)
FEDERAL TAXABLE INCOME	35,650	26,300	35,399	47,408	86,273	146,663	773,438
FEDERAL TOP MARGINAL TAX RATE	25.00%	15.00%	15.00%	15.00%	25.00%	28.00%	35.00%
MAINE INCOME TAX UNDER 2011 CURRENT LAW	2,433	1,340	2,052	3,167	6,778	12,388	70,613
TOP MAINE MARGINAL TAX RATE	8.50%	7.00%	8.50%	8.50%	8.50%	8.50%	8.50%
IMPACT OF FEDERAL TAX DEDUCTION	N/A (1)	N/A (1)	-1.28%	-1.28%	-2.13%	-2.38%	-2.98%
<b>TOP MAINE MARGINAL TAX RATE AFTER FEDERAL TAX IMPACT</b>	<b>8.50%</b>	<b>7.00%</b>	<b>7.23%</b>	<b>7.23%</b>	<b>6.38%</b>	<b>6.12%</b>	<b>5.53%</b>
MAINE INCOME TAX	2,433	1,340	2,052	3,167	6,778	12,388	70,613
FEDERAL INCOME TAX BENEFIT	0	0	(308)	(475)	(1,694)	(3,469)	(24,714)
NET MAINE TAX	2,433	1,340	1,744	2,692	5,083	8,919	45,898
<b>TOTAL EFFECTIVE NET MAINE TAX AS % OF INCOME</b>	<b>5.4%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>4.1%</b>	<b>4.5%</b>	<b>5.1%</b>

(1) NO FEDERAL TAX BENEFIT BECAUSE TAXPAYER DOES NOT ITEMIZE DEDUCTIONS.

(2) - NOTE MAINE ADJUSTED INCOME IS NOT TOTAL INCOME BECAUSE IT EXCLUDES VARIOUS EXEMPT INCOME UNDER MAINE LAW. FOR EXAMPLE THE TOP 1% OF MAINER'S HAD MAINE ADJUSTED GROSS INCOME STARTING AT ABOUT \$250,000, BUT THEIR TOTAL INCOME STARTED AT \$323,241. ACCORDINGLY THE EFFECTIVE TAX RATE ON ALL INCOME IS SUBSTANTIALLY LESS THAN THE EFFECTIVE TAX RATE ON MAINE ADJUSTED GROSS INCOME.

MAINE INCOME TAX AND PROPERTY TAX ON RESIDENTS -RETIREES 65 OR OLDER

FILING STATUS OVER AGE 65 EXEMPTIONS ITEMIZED DEDUCTIONS / STD DEDUCTION MAINE PROPERTY TAX BEFORE REBATE	SINGLE YES 1 STD DED \$2,550	MARRIED YES 2 STD DED \$3,000	MARRIED YES 2 STD DED \$3,450	MARRIED YES 2 12,000 \$4,050	MARRIED YES 2 16,000 \$5,100	MARRIED YES 2 20,000 \$5,550
SOCIAL SECURITY RETIREMENT (1)	18,000	24,000	30,000	36,000	40,000	40,000
PRIVATE RETIREMENT INCOME	12,000	16,000	20,000	24,000	32,000	60,000
TAXABLE INTEREST & DIVIDENDS	2,000	2,000	3,000	5,000	7,000	10,000
NON TAXABLE INTEREST (1)	0	0	0	5,000	6,000	15,000 (2)
<b>TOTAL INCOME</b>	<b>32,000</b>	<b>42,000</b>	<b>53,000</b>	<b>70,000</b>	<b>85,000</b>	<b>125,000</b>
MAINE ADJUSTED INCOME (1)	14,000	18,000	23,000	29,000	39,000	70,000
ME EXEMPTIONS	(2,850)	(5,700)	(5,700)	(5,700)	(5,700)	(5,700)
ITEMIZED DEDUCTION EXCLUDING PROPERTY TAX	N/A			(11,500)	(15,320)	(20,000)
PROPERTY TAX DEDUCTION (AFTER REBATE)	N/A			(3,550)	(4,420)	(5,550)
STANDARD DEDUCTION	(5,700)	(9,550)	(9,550)	N/A	N/A	N/A
MAINE TAXABLE INCOME	5,450	2,750	7,750	8,250	13,560	38,750
<b>MAINE INCOME TAX - 2010 LAW</b>	<b>109</b>	<b>55</b>	<b>155</b>	<b>165</b>	<b>271</b>	<b>1,970</b>
<b>MAINE INCOME TAX - 2013 LAW</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>95</b>	<b>1,732</b>
MAINE PROPERTY TAX	2,550	3,000	3,450	4,050	5,100	5,550
CIRCUIT BREAKER REBATE	(508)	(528)	(532)	(500)	(680)	0
<b>NET MAINE PROPERTY TAX</b>	<b>2,042</b>	<b>2,472</b>	<b>2,918</b>	<b>3,550</b>	<b>4,420</b>	<b>5,550</b>

(1) - MAINE ADJUSTED INCOME EXCLUDES SS INCOME, MAINE MUNICIPAL INTEREST AND INTEREST ON US OBLIGATIONS

(2) - A SIGNIFICANT NUMBER OF HIGHER INCOME MAINE RETIREES HAVE SUBSTANTIAL MAINE MUNICIPAL INTEREST.

NOTE: THE ABOVE ILLUSTRATES THAT THE VAST MAJORITY OF MAINE RETIREES PAY SIGNIFICANTLY MORE PROPERTY TAX THAN INCOME TAX. ACCORDINGLY, AN EXPANSION OF THE PROPERTY TAX REBATE PROGRAM WOULD BE MORE BENEFICIAL THAN EXEMPTING PENSIONS FROM INCOME TAX.

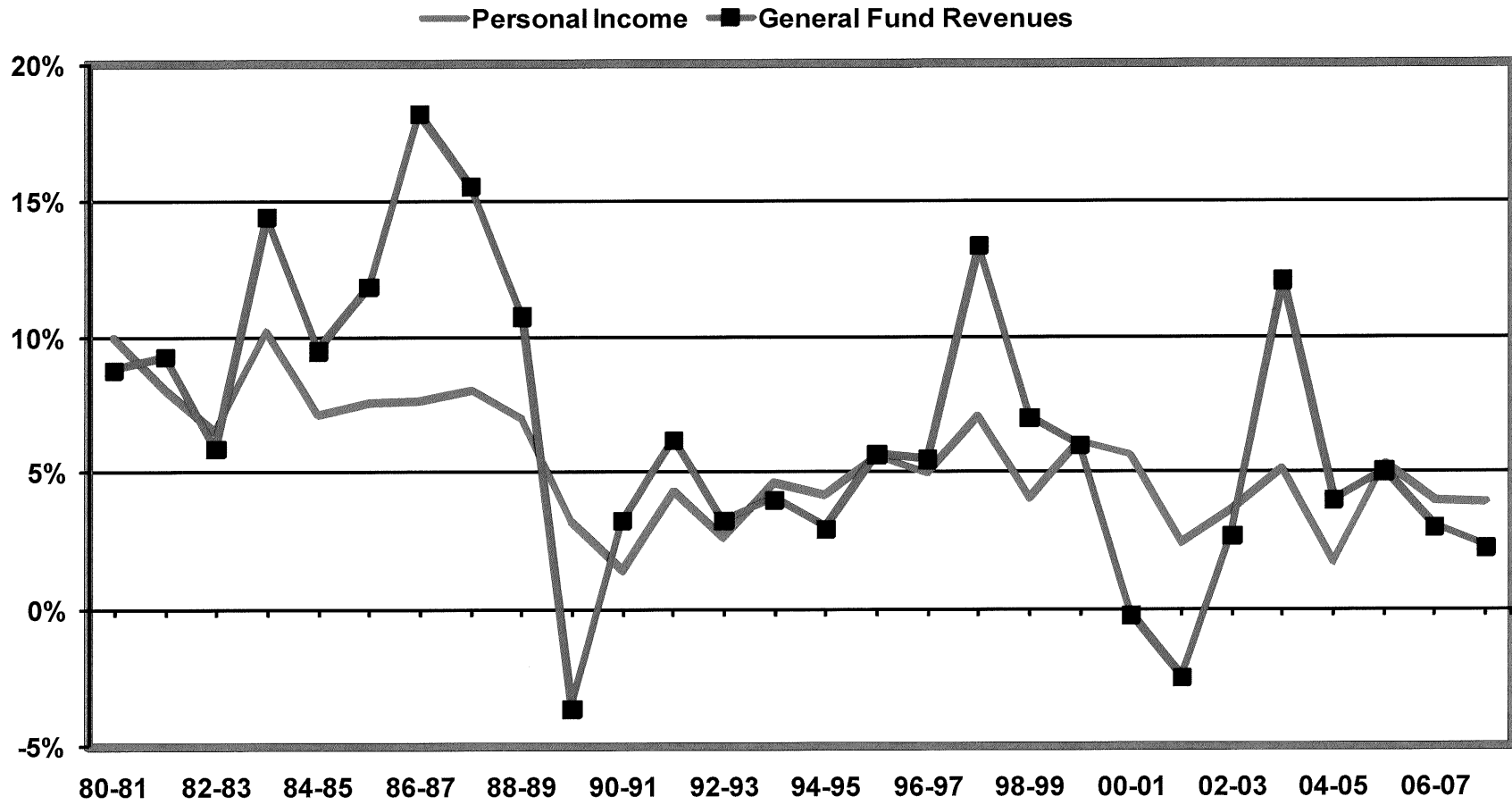
PROPERTY TAX CALCULATION

HOME FULL MARKET VALUE	180,000	210,000	240,000	280,000	350,000	380,000
HOMESTEAD EXEMPTION	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
TAXABLE BASE	170,000	200,000	230,000	270,000	340,000	370,000
<b>PROPERTY TAX AT 1.5%</b>	<b>2,550</b>	<b>3,000</b>	<b>3,450</b>	<b>4,050</b>	<b>5,100</b>	<b>5,550</b>

CIRCUIT BREAKER REBATE CALCULATION

TOTAL INCOME ABOVE	32,000	42,000	53,000	70,000	85,000	125,000
BASE - 4% OF INCOME	1,280	1,680	2,120	2,800	3,400	
PROPERTY TAX	2,550	3,000	3,450	4,050	5,100	
EXCESS OF PROPERTY OVER 4% OF INCOME	1,270	1,320	1,330	1,250	1,700	
REBATE BEFORE 20% CUT (50% OF EXCESS)	635	660	665	625	850	0
20% CUT BASED ON LD353	(127)	(132)	(133)	(125)	(170)	
<b>NET CIRCUIT BREAKER REBATE</b>	<b>508</b>	<b>528</b>	<b>532</b>	<b>500</b>	<b>680</b>	<b>0</b>

### Maine Personal Income & General Fund Revenue; Fiscal Year to Fiscal Year Percent Change, 1980-2008



Source: Bureau of Economic Analysis and Maine State Legislature Office of Fiscal and Program Review