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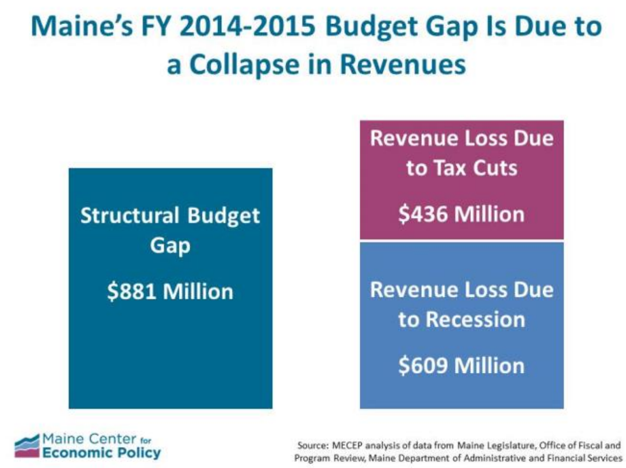
Testimony at Hearing on LR 1046:
An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds, and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2014 and June 30, 2015

By Garrett Martin, Executive Director

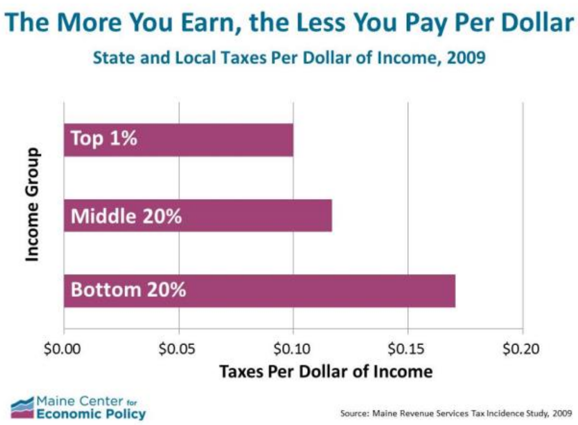
Good afternoon Senator Hill, Representative Rotundo, Senator Haskell, Representative Goode, and distinguished members of the Joint Committees on Appropriations and Financial Affairs and Taxation. My name is Garrett Martin. I am the Executive Director at the Maine Center for Economic Policy.

I am here today to testify against Parts J, L, and M in the Governor's biennial budget proposal.

The recession that began in December of 2007 has a lot to do with how we got to the budget you have before you. When the economy collapsed, it decimated the economic security of millions of families and created gaping holes in federal, state, and local revenues. The federal government helped soften the blow initially through the American Recovery and Reinvestment Act. When the Recovery Act dollars went away, states had to decide how to deal with the continued collapse in revenue. Maine cut revenue, making an already large structural budget deficit even larger. By our calculation, the recession took a $609 million bite out of Maine revenues for the coming biennium. The tax cuts from the last legislative session took out another $430 million. That's over $1 billion that we don't have to make needed investments in our people, our schools, and our communities.

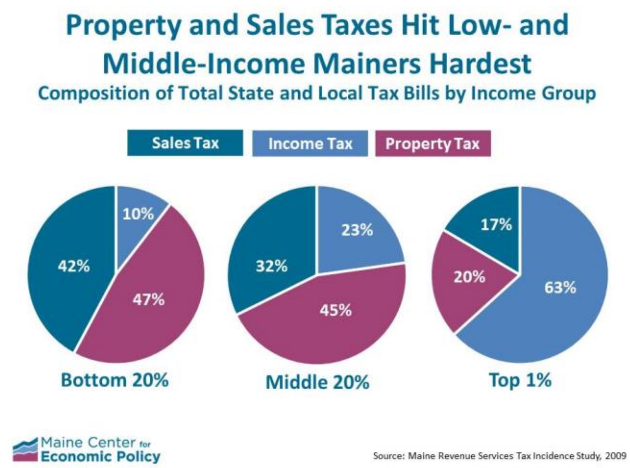


Now the bill is coming due on those tax cuts. The economic recovery is slow to come and no new federal stimulus is in the offing. The governor is unwilling to put significant new revenue on the table, which means this budget proposal passes the buck – and the bill for recent tax cuts – to towns, schools, and property tax payers. Ultimately, this is a bad deal for Maine's poor and middle class.



Even before the governor submitted this budget proposal, Maine's tax system was unfair. The bottom 20 percent of Mainers pay 17 cents on the dollar in state and local taxes while a middle-income Mainer pays 12 cents on the dollar and the top one percent pays only 10 cents. Unfortunately, because this budget increases property taxes – both directly and indirectly – this picture will get worse and wipe out any of the benefits of last year's income tax cuts for most Mainers.

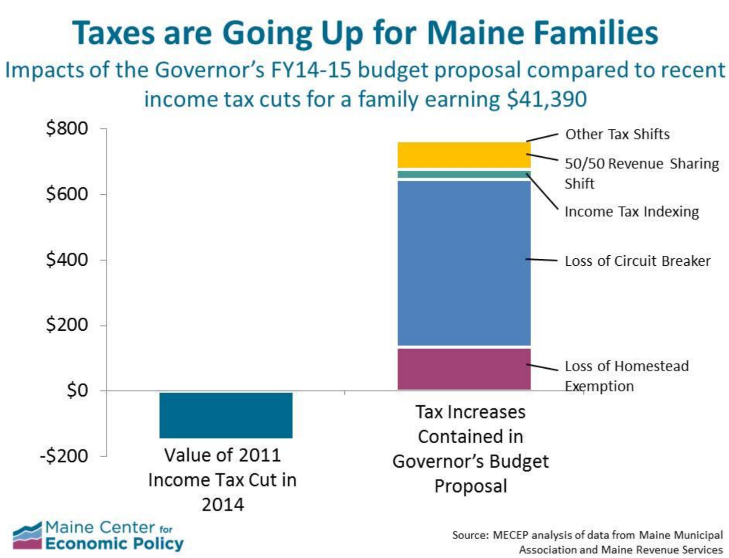
Property taxes hit low- and middle-income taxpayers hardest. Anything that directly increases property taxes or shifts more of the cost of paying for education and basic public services to property taxes will have a greater impact on the average Maine household budget.



The governor's budget directly raises property taxes in two ways. First, the elimination of the homestead exemption for individuals under age 65 in Part M of the budget will increase property taxes for a typical household that claims this benefit by approximately $158 dollars based on the statewide average mill rate. This is roughly equivalent to the $152 income tax cut the typical Maine family earning the statewide median income of $41,390 in 2014 (based on Maine Revenue Services projections) will receive. Based on the elimination of the homestead exemption alone, the typical Maine family will barely break even when one includes the value of the income tax cut they will receive. Obviously this outcome will vary based on local mill rates and valuation, but the basic point remains the same – the loss of the homestead exemption for hundreds of thousands of Maine families is a tax increase that will outweigh the benefits they receive from the 2011 income tax cuts.

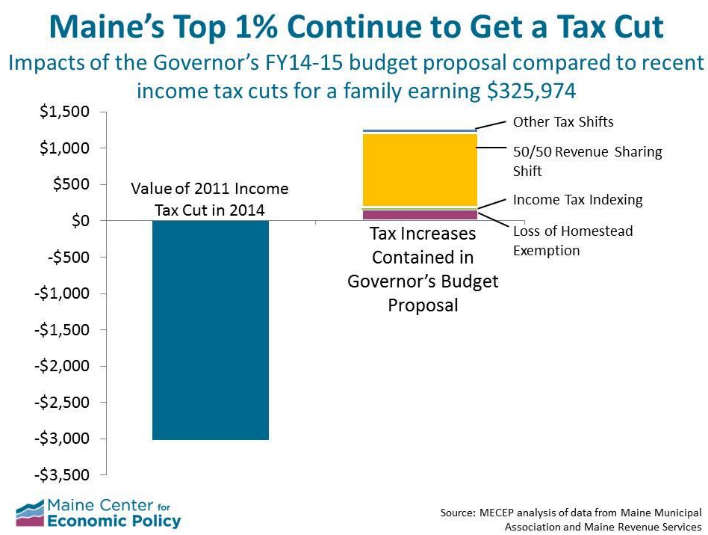
The second way the budget raises property taxes is through the elimination of the circuit breaker for individuals under age 65 in Part L. This change will affect approximately 75,000 families whose property taxes will go up an average of $500. Note that this increase does not account for previous cuts to the program. For families that benefit from the circuit breaker, these property tax increases dwarf any benefit they receive from the income tax cut.

From the standpoint of tax fairness, the circuit breaker is one of the best ways to target tax relief to those who need it most. It is also an effective way to deliver property tax relief while ensuring that individuals who live out-of-state and own property in Maine contribute to services here in Maine. The homestead exemption is not as beneficial in terms of its distributional impacts. That's because it offers no benefits to renters, and does not target low- and middle-income taxpayers. It does have the effect of shifting property taxes to individuals who live out-of-state and own property in Maine, but it has a similar effect on low-income renters.



The budget has the potential to increase property taxes indirectly by cutting all revenue sharing over the biennium, as proposed in Part J. If towns address the implications of this proposal through a balance of cuts and increased revenues, then the typical Maine family will see property tax increases of $86.

Accounting for these direct and indirect tax increases, the typical Maine family that benefits from the circuit breaker will experience a significant tax increase over any of the benefits they receive from the income tax cuts. By contrast, Maine's wealthiest residents will still receive a significant tax cut.



Balancing Maine's budget and paying for poorly timed tax cuts by increasing property taxes is no solution. Clearly there are better ways to address the collapse in revenues that resulted from the recession. For starters, rolling back the 2011 estate, income, and pension tax cuts would provide approximately $433 million in revenue. Making sure that Maine's wealthiest residents pay the same effective state and local tax rate as the average Mainer will generate close to $200 million over the coming biennium. Applying greater scrutiny to business tax expenditures and insisting that corporations contribute to the solution, could generate another $50 million. There are plenty of other ways to raise revenue to secure key investments in education, health care, public safety, and other important services for Maine people. Ultimately, Maine's tax system is in serious need of reform. While it is unlikely to occur through the budget process, I urge you to consider the total impact of the decisions you make on advancing tax fairness and making sure Maine has the resources it needs to preserve investments that will keep Maine strong now and in the future.

Maine needs a budget that reflects our values, one in which everyone pays their fair share, and one that invests in our people, their education, and the prospect for a better future.