

**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 Joel Johnson, MECEP Economist

Good Morning Senator Hill, Representative Rotundo, Senator Haskell, Representative Goode, and distinguished members of the Joint Committees on Appropriations and Financial Affairs and Taxation. I'm Joel Johnson. I'm an economist at the Maine Center for Economic Policy. I'm here today to testify against Parts Q and T in the Governor's biennial budget proposal.

Part Q

By suspending income tax bracket indexing for two years, Part Q would levy a \$50 flat tax on any taxpayer in the state with income over \$20,000. With this proposal, the Governor acknowledges the need for a combination of tax increases and spending cuts to close our \$880 million two-year structural budget gap. But this is not the right way to do it. It's unfair to hard-working low- and middle-income Maine families because it hits them much harder than high-income Mainers.

Consider for example a taxpayer earning \$30,000 per year. According to Maine Revenue Services, their combined two-year benefit from the 2011 income tax cut is \$141, on average. The tax increase in Part Q will negate more than one third of that benefit.

Now consider a taxpayer earning \$100,000 per year. Their combined two-year benefit from the 2011 tax cut is \$953. The tax increase in Part Q will only negate 5% of that benefit.

Taxes that meet the bare minimum standard for fairness are proportional to income. Part Q falls far short of that standard.

Part T

The language in Part T is normal for biennial budget legislation. That's the problem. With a single written sentence, Part T approves billions of dollars in spending through the tax code. Tax expenditures should receive the same scrutiny as normal appropriations. Maine, like most other states, has poor accountability and enforcement mechanisms for economic development programs. In fact, Good Jobs First, a national, non-partisan organization that tracks economic development subsidies in all 50 states, ranks Maine in the bottom half of states for transparency and accountability in economic development subsidies. We need annual, company-specific reporting of public costs (subsidies received) and public benefits (jobs created, wages, etc.) relating to economic development deals. We need to enact and enforce money-back guarantees for taxpayers. We need job quality standards for economic development incentives. We need to give taxpayers and the public the opportunity to comment on specific subsidy and economic development deals. This is especially important now, with a two-year budget gap approaching \$900 billion, and with all other appropriations are under such scrutiny. Excluding tax expenditures from the mix makes no sense.

Maine people and Maine's economy need tax expenditure accountability and a fairer tax code.