

# Tax Proposals in the Governor's FY12/13 Biennial Budget

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# Business Investment Incentives

- Conform to Federal Bonus Depreciation
  - Effective 1/1/11
  - Full expensing in tax year 2011 and 50% bonus in tax year 2012
  - Estimated revenue reduction of \$57.4 million in FY12/13 biennium
- Conform to Section 179 Expensing
  - Effective 1/1/11
  - Up to \$500,000 for qualifying property in tax year 2011 and \$125,000 in tax year 2012
  - Estimated revenue reduction of \$9.7 million in FY12/13 biennium

# Estate Tax Relief

- Increase Maine exclusion amount from \$1 million to \$2 million
- Effective for deaths on or after January 1, 2013
- Federal exclusion amount is \$5 million for 2011 & 2012 then goes to \$1 million in 2013 and beyond
- Estimated revenue reduction of \$0 in FY12/13 biennium and \$32.4 million in FY14/15 biennium
- Approximately 400 estates per year will not have a Maine estate tax liability

# Individual Income Tax Relief

- Conform to federal standard deduction for joint filers (marriage penalty relief)
- Effective for 2012 tax year only
- Forecast that standard deduction for joint filers will increase from \$9,800 to \$15,000 in 2012
- Estimated to reduce resident income tax liability by \$17.3 million in tax year 2012 for approximately 135,000 tax families in Maine
- Average tax cut of \$128 for those eligible

# Individual Income Tax Relief (cont.)

- Conform to federal personal exemption amount, including the phase-out for high income taxpayers
- Effective beginning with 2012 tax year
- Forecast that personal exemption amount will increase from fixed \$2,850 to \$3,750 in 2012 and \$3,850 in 2013
- Estimated to reduce resident income tax liability by \$58.7 million in tax year 2013 for approximately 430,000 tax families in Maine
- Average tax cut of \$145

# Individual Income Tax Relief (cont.)

- Eliminate state AMT and two penalty add-backs associated with retirement distributions
- Effective beginning with 2012 tax year
- Estimated to reduce resident income tax liability by \$6.0 million in tax year 2013 for approximately 16,000 tax families in Maine
- Average tax cut of \$366

# Individual Income Tax Relief (cont.)

- Reduce top marginal tax rate from 8.5% to 7.95%
- Effective beginning with 2013 tax year
- Estimated to reduce resident income tax liability by \$60.0 million in tax year 2013 for approximately 235,000 tax families in Maine
- Average tax cut of \$255

# Individual Income Tax Relief (cont.)

- The individual income tax relief changes combined are estimated to reduce revenue by \$135.6 million in the FY12/13 biennium
- Estimated to reduce resident income tax liability by \$126.3 million in tax year 2013 for approximately 439,000 tax families in Maine
- Average tax cut of \$288 for those taxpayers that are affected



**Maine Resident Income Tax in 2013, Current law and Certain Budget Proposals (Conform to federal personal exemption including PEP, eliminate AMT and other tax additions, reduce top rate to 7.95%)**

Tax Year 2013

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
Current Law				Budget Proposal /1				Families with an income tax cut				Families with an income tax increase						
		Individual Tax		Individual Tax		Change in Tax	Percent	Average	Share of income			Change in Tax	Average			Change in Tax	Average	
<u>Expanded income</u>		<u>Tax</u>	<u>Liability</u>	<u>Percentage</u>	<u>Liability</u>	<u>Percentage</u>	<u>Liability</u>	<u>Tax</u>	<u>Tax</u>	<u>tax reduction</u>	<u>Number of</u>	<u>Share of</u>	<u>Liability</u>	<u>Tax</u>	<u>Number of</u>	<u>Share of</u>	<u>Liability</u>	<u>Tax</u>
		<u>Families</u>	<u>(\$ MIL)</u>	<u>Distribution</u>	<u>(\$ MIL)</u>	<u>Distribution</u>	<u>(\$ MIL)</u>	<u>Change</u>	<u>Change</u>	<u>(percent)</u>	<u>families</u>	<u>families</u>	<u>(\$ MIL)</u>	<u>Decrease</u>	<u>families</u>	<u>families</u>	<u>(\$ MIL)</u>	<u>Increase</u>
-\$ Infinity <=	14673	139,344	\$1.6	0.1%	\$1.3	0.1%	-\$0.2	-15.2%	-\$2	0.2%	8,090	5.8%	-\$0.2	-\$30	0	0.00%	\$0.0	\$0
14673 <=	21058	69,667	\$6.1	0.4%	\$5.1	0.4%	-\$1.0	-16.9%	-\$15	0.8%	24,466	35.1%	-\$1.0	-\$42	0	0.00%	\$0.0	\$0
21058 <=	28139	69,668	\$15.6	1.0%	\$13.4	1.0%	-\$2.2	-14.2%	-\$32	1.8%	35,163	50.5%	-\$2.2	-\$63	0	0.00%	\$0.0	\$0
28139 <=	36521	69,669	\$35.9	2.4%	\$31.6	2.3%	-\$4.2	-11.8%	-\$61	3.4%	50,381	72.3%	-\$4.2	-\$84	0	0.00%	\$0.0	\$0
36521 <=	48050	69,670	\$65.6	4.4%	\$58.3	4.3%	-\$7.3	-11.1%	-\$105	5.8%	56,881	81.6%	-\$7.3	-\$129	0	0.00%	\$0.0	\$0
48050 <=	63648	69,670	\$106.5	7.1%	\$95.4	7.0%	-\$11.1	-10.4%	-\$160	8.8%	62,818	90.2%	-\$11.1	-\$177	0	0.00%	\$0.0	\$0
63648 <=	84797	69,669	\$161.8	10.8%	\$146.4	10.7%	-\$15.4	-9.5%	-\$221	12.2%	65,690	94.3%	-\$15.4	-\$234	0	0.00%	\$0.0	\$0
84797 <=	119783	69,672	\$277.0	18.5%	\$253.1	18.5%	-\$23.9	-8.6%	-\$343	18.9%	67,961	97.5%	-\$23.9	-\$352	0	0.00%	\$0.0	\$0
119783 <= \$ Infinity		69,667	\$826.9	55.2%	\$766.0	55.9%	-\$60.9	-7.4%	-\$874	48.2%	67,738	97.2%	-\$60.9	\$0	38	0.05%	\$0.0	\$132.5
<b>Totals</b>		<b>696,698</b>	<b>\$1,496.9</b>	<b>100.0%</b>	<b>\$1,370.6</b>	<b>100.0%</b>	<b>-\$126.3</b>	<b>-8.4%</b>	<b>-\$181</b>	<b>100.0%</b>	<b>439,187</b>	<b>63.0%</b>	<b>-\$126.3</b>	<b>-\$288</b>	<b>38</b>	<b>0.01%</b>	<b>\$0.0</b>	<b>\$132.5</b>
<u>Top Decile Decomposition: 90-95, 95-99, and 99+ :</u>																		
119783 <=	159633	34,834	\$212.5	14.2%	\$194.8	14.2%	-\$17.7	-8.3%	-\$508	14.0%	33,915	97.4%	-\$17.7	-\$522	2	0.00%	\$0.0	\$12.6
159633 <=	363438	27,869	\$297.5	19.9%	\$273.6	20.0%	-\$23.9	-8.0%	-\$858	18.9%	27,105	97.3%	-\$23.9	-\$882	14	0.05%	\$0.0	\$81.1
363438 <= \$ Infinity		6,964	\$316.8	21.2%	\$297.5	21.7%	-\$19.3	-6.1%	-\$2,770	15.3%	6,718	96.5%	-\$19.3	-\$2,872	23	0.33%	\$0.0	\$171.0

1/ The proposal increases the personal exemption amount from \$2,850 to an estimated \$3,850, eliminates the state alternative minimum tax (AMT) and other tax additions and reduces the top marginal tax rate from 8.5% to 7.95%.

***Impact of the Governor's Tax Proposals on Hypothetical Resident Households /1  
Tax Year 2013***

**Married Filing Joint - 2 Dependents - Non-Itemizer**

	<u>Current Law</u>	<u>Proposed Law</u>	<u>Change</u>	<u>% Change</u>
Maine AGI	\$77,500			
<b>Income Tax Reform:</b>				
Maine AGI	\$77,500	\$77,500	\$0	0.0%
Standard Deduction	\$10,000	\$10,000	\$0	0.0%
Personal Exemptions	\$11,400	\$15,400	\$4,000	35.1%
Taxable Income	\$56,100	\$52,100	-\$4,000	-7.1%
Tax Liability Before Credits	\$3,377	\$2,977	-\$400	-11.8%

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1/ Proposal conforms Maine to the federal personal exemption amount (from \$2,850 per exemption to an estimated \$3,850 in tax year 2013) and reduces the top marginal tax rate to 7.95%.

# Other Tax Provisions in Budget

- Continues current biennium reduction in BETR reimbursement; 10% reduction for FY12/13 biennium
- Estimated increase in revenue of \$9.8 million in biennium
- Continues current biennium reduction in circuit breaker reimbursement; 20% reduction (General Program only) for FY12/13 biennium
- Estimated increase in revenue of \$22.3 million in biennium