

126th Maine Legislature
LD 1496, *An Act to Modernize and Simply the Tax Code*

Sponsors. “Gang of 11” Senators Cain of Penobscot; Goodall of Sagadahoc; Katz of Kennebec; and Woodbury of Cumberland and Representatives Dion of Portland; Gideon of Freeport; Harvell of Farmington; Keschl of Belgrade; Libby of Lewiston; Volk of Scarborough; and Knight of Livermore Falls

Summary. LD 1496, printed on May 2, 2013 as a concept draft bill, proposed to “more carefully target property tax relief to owners of homestead property and to municipalities with higher property tax mill rates and higher overall tax burdens, as well as provide proportionately more relief to households with lower incomes and lower property wealth, moderating the regressive impact of the property tax.”

Although printed as a concept draft bill (**Attachment #3**), the amended version of the bill (**Attachment #4**) proposed to:

- **Income Tax (Part A).** (1) Replace the tiered income tax schedule with a flat 4.95% rate, which would be reduced to 4% if the accompanying sales tax base expansion was enacted; (2) implement a sales tax fairness credit, based on filing status (e.g., individual, heads of household, jointly) and income; and (3) implement a property tax fairness income tax credit based on the just value of a homestead of up to \$250,000 or 15% of the gross rent.
- **Sales Tax (Part B & J).** (1) Expand the sales tax to: (a) amusement, entertainment, and recreation services; (b) installation, repair or maintenance services; (c) personal care services; (d) personal property services; (e) leases and rental of manufacturing or fabrication facility property; and (f) transportation and courier services; (2) repeal the sales tax exemptions on certain grocery staples, residential electricity, publications, funeral services, vending machines, and residential water; (3) increase the tax rate on liquor, meals, lodging, and automobile rentals; and (4) offer retailer discounts for the expenses of reporting and collecting additional sales taxes.
- **Estate Tax (Part C).** Repeal the estate tax as of January 1, 2015.
- **Property Tax (Part D-F).** (1) Increase the homestead exemption to the lesser of \$50,000 or 50% of the just value of the property; (2) repeal the circuitbreaker program and the authority extended to municipalities to adopt municipally funded property tax relief programs; and (3) amend the revenue sharing program by reducing the amount state sales and income tax revenue shared with municipalities from 5% to 1.5% and to distribute those revenues via the Revenue Sharing II formula, only.

- **Real Estate Transfer Tax (Part G).** Repeal and replace the real estate transfer tax by establishing tiered rates based on property value.
- **Cigarette Tax Rate (Part H).** Increase the taxes assessed on cigarettes, smokeless tobacco, and other tobacco products.
- **Alcohol Education Premium (Part I).** Increase the premium tax on malt beverages, hard cider, and low-alcohol spirits sales.
- **Efficient Delivery of Local & Regional Services (Part K).** Provide for an annual appropriation of \$1 million in General Fund revenues to fund the program.
- **Tax Reform Working Group (Part L).** Establish a 12-member working group directed to: (1) review all categories of sales and tangible personal property and services that remain exempt from sales tax; and (2) recommend reforms to the property tax exemption for private nonprofit organizations, the use of TIF and requirements for participation in the tree growth tax law; and submit a report to the Joint Standing Committee on Taxation by December 15, 2013.
- **Monthly Reporting Requirements (Part M).** Direct the state tax assessor to provide the Taxation Committee with a monthly report regarding implementation of the tax reform proposal.

LD 1496 received a public hearing on May 10, 2013, and was worked by the Taxation Committee on May 14, 17, 21 and 30, as well as June 5, before being reported out of committee with a unanimous “ought not to pass” recommendation.

Testimony. Included as **Attachment #5** is a list of the proponents, opponents and organizations that provided testimony “neither for nor against” LD 1496 along with a summary of the issues raised. Although many of the opponents supported the income tax reductions, the expansion of the sales tax base and increase in existing rates, necessary to make the plan “revenue-neutral,” were non-starters for many providing testimony.

Please remember that the printed version of the bill was a concept draft, and some of the comments are based on the information provided in the printed bill. To that end, you will read comments regarding an initial proposal to reduce the value of property tax exemption extended to certain organizations by providing 100% exemption for the value of property up to \$250,000 and a 75% exemption on value exceeding \$250,000.