

# **The Essential Framework for Tax Reform**

**By Mid-Maine Chamber of Commerce  
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Through a combination of decades of overspending, anti-business economic policies and a tough economy, Maine has found itself as one of the most, (if not the most) heavily taxed states in the nation. Although we will not go from the back of the pack to the middle overnight, we believe the following statements should provide the framework for the discussion.

## **State government has shown a lack of self-discipline in keeping state spending in line with economic growth rates**

Therefore, we propose that all tax reform discussions will only be successful if spending limits become legally mandated. Legislators must be required to keep growth in state spending in line with personal incomes and overall economic growth. An override of these limits should only occur with a 2/3 majority vote by the legislature.

## **Maine cannot borrow its way to prosperity**

Bonds should only be used to fund capital improvements and revenue generating facilities. Bonds should never be used to fill the gap when spending deficits occur. Put simply, the state should not pay for ordinary living expenses with a credit card.

## **Surpluses should be used for economic development and education**

When surpluses occur, they should be used to make the economic pie bigger – through investments in tourism, new business attraction, and infrastructure and economic incentives to existing businesses to encourage them to grow their slice of the pie.

We must also increase our support for secondary educational programs with a goal of dramatically increasing the percentage of our high school graduates who go on to college. Education is the most important factor that will determine our children's future income, and Maine is still below the national average in this vital area. We do an outstanding job of graduating our kids from high school; we must have the same commitment to a college education.

## **Maine's income tax brackets are too high**

A top tax bracket of 8.5% encourages those who pay the most (and spend the most) to establish residency in states with lower or no income tax. It also presents a significant challenge in attracting businesses and employees.

## **Maine sales and income tax brackets lead to feast or famine**

Without income brackets which are more gradual, many workers move into lower brackets during tough economic times and move back up during good times. In addition, a high sales tax covering only some products and services contributes to significant fluctuations in revenue. During times of substantial surplus, the legislature overspends on existing and new programs. When the downturns occur, we are unable to meet the needs of all of these programs and forced to make painful cuts to funding that should have been avoided in the first place.

**We must consider broadening the sales tax only if the above items are agreed to first**

An expanded sales tax would provide a more predictable stream of revenue which would allow for more sensible spending policies. All profit and nonprofit goods and services should be put on the table for discussion. We are not advocating for a sales tax which will increase overall tax revenue, but we do believe the current tax structure requires big changes – not just incremental tinkering. The level of taxation should somehow reflect the costs incurred by state government because of the goods and services which are provided. Increases in the sales tax rate should only be possible with a 2/3 majority vote of the legislature.

**Maine's tax policy must be understandable and have long term consistency**

Maine businesses make plans for capital investments while planning years into the future. All uncertainty surrounding incentive programs (for example, the Business Equipment Tax Reimbursement Program) makes it harder for companies to commit to major expansions requiring significant capital investment.