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Janet T. Mills
GOVERNOR

April 26, 2024

The 131st Legislature of the State of Maine
State House
Augusta, Maine

Dear Honorable Members of the 131st Legislature:

By the authority vested in me by Article IV, Part Third, Section 2 of the Constitution of the State of Maine, I am hereby vetoing L.D. 1231, An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets.

L.D. 1231 would adjust Maine's current income tax rate structure by creating a new top tax rate of 8.45 percent and expanding the lower rate brackets. The intent, in theory, is to reduce the tax burden for lower-income individuals (a worthy goal I share) by offsetting that reduction by raising taxes on higher-income individuals.

First, this bill would make a substantial change to the structure of Maine's income tax, but it moved through the Legislature in a manner that deprived the public of a meaningful opportunity to be heard. The bill was printed as a concept draft and no actual legislative language was available at the public hearing. The tax rate increases included in the enacted bill were not presented during the public hearing; they were first unveiled and discussed at the work session afterward, which denied the public and stakeholders, small businesses, for instance, the opportunity to weigh in and shape the discussion. Fundamental changes to the State's income tax structure such as the one proposed in this bill should be made only following a transparent and deliberative process; they should not be made on a single, ad hoc basis near the end of a legislative session but, instead, as part of a larger, wholistic discussion about Maine's tax structure.

Additionally, while well-intentioned, the income tax shift in L.D. 1231 does not deliver meaningful tax relief. Low-income taxpayers would receive very little or no actual benefit from the proposal due to the State's many available deductions and exemptions as well as the size of the existing 5.8 percent tax bracket.

For example, in recent years, at the State (and Federal level), there have been numerous expansions of eligibility for, and increases in the value of deductions, exemptions, and credits that are specifically targeted to low-income taxpayers – several of which I supported and signed into law. The cumulative impact of these changes is that low-income individuals in Maine have little or no tax liability. As a result, this bill would have little or no impact on the taxpayers it is intended to benefit.

Additionally, because of the large standard deduction, personal exemption(s), and other state modifications (e.g. pension deduction, exemption of social security income, etc.) many low-income taxpayers have no taxable income, or their taxable income is well within the 5.8% tax bracket, so expanding the length of the 5.8% bracket provides no tax relief. It takes $50,000 of Federal Adjusted Gross Income (FAGI) before a taxpayer begins to receive a meaningful benefit under LD 1231. It's estimated that there will be approximately 120,555 returns in the $30,000<$50,000 income band in tax year 2025 , but only 6,735 returns are estimated to see a decrease as a result of this bill, and the average decrease is estimated to be just $22.

Maine's highest income tax rate of 7.15 percent is the 10th highest state income tax rate in the country, and there are concerns that increasing that top rate even further would create challenges for state budgeting, because it would increase the State's reliance on a small number of taxpayers (less than 1 percent) whose income is disproportionately composed of highly volatile sources such as capital gains and business income. Income tax revenue, which already varies significantly year-to-year, would become more volatile and likely more closely tied to economic conditions, increasing the challenge of managing the State's fiscal position and the size of a revenue shortfall during an economic downturn. At a time when we are already keeping a close eye on Maine's budget because of increased spending and flattening revenues, there is concern from our budgeting officials that relying on more volatile forms of revenue may inadvertently jeopardize the State of Maine's fiscal standing.

Lastly, I agree that progressive income tax rate structures serve an important role in creating a fair and balanced state tax structure. A recent report by the Institute on Taxation and Economic Policy ranked Maine as one of the most progressive states in the country, with only five states being ranked as more progressive. This is in part due to the recent expansions of Maine's income tax credits specifically aimed at helping low-income Mainers.

Over the past several years, we have substantially reduced, if not outright eliminated, the tax burden for low-income Mainers. While I am always open to conversations about how we can continue to reduce the tax burden for Maine people, I do not believe this bill effectively achieves its aim. I believe it was arrived at through a flawed process and that it may have unintended consequences that could jeopardize the stability of the state budget.

For these reasons I am returning L.D. 1231 unsigned and vetoed, and I urge the Legislature to uphold this veto.

Sincerely,

Janet T. Mills
Governor