

FLASH REPORT

REPORT #9

Tax Reform: The Sequel

How Tax Reform Opponents Use Systematic Campaign Giving to Bolster Their Side in this Perennial Fight

 MONEY IN
POLITICS
PROJECT





ABOUT THIS SERIES

The Money in Politics Project is a series of twelve reports about the role and effect of money on Maine politics. The reports combine a review of publicly available campaign finance data with on-the-ground analysis of how money influences Maine's elections, government, and public policy. **Maine Citizens for Clean Elections** launched this project because money in politics is an issue of vital concern to the people of Maine, one that goes to the heart of our democratic system.



The *Money in Politics Project* is a program of **Maine Citizens for Clean Elections**, a nonpartisan organization that has been working in the public interest to advocate for, increase public support for, defend and improve the Maine Clean Election Act and related campaign finance law since 1995. MCCE is a 501(c)(3) organization.

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Tax Reform: The Sequel

One of the most noteworthy bills in the 126th Legislature is LD 1496: An Act to Modernize and Simplify the Tax Code.

This bill seeks to lower the Maine income tax and broaden the sales tax base in order to stabilize Maine's revenue system and increase revenue from tourists and out-of-state interests. The bill also has provisions to decrease property taxes for some taxpayers, and necessities such as groceries and heating fuel would be subject to sales tax for the first time. The bill also repeals most income tax credits and deductions found in current Maine law.

LD 1496 is noteworthy, but hardly novel. Over the last decade many reforms aiming to lower the income tax rate and broaden the sales tax base have been proposed, but none has succeeded. One bill even made it through the legislative gauntlet, only to be nullified by a people's veto in June, 2010.

The new bill has attracted a great deal of attention. Twenty five separate entities registered to lobby on LD 1496, employing nearly every prominent lobbyist in the State House.

On the day of the public hearing, the bill's sponsor, Senator Dick Woodbury, testified that lowering

the income tax rate would stimulate economic growth. He said that including more transactions in the sales tax base would offset the loss from the lower income tax while also eliminating the large swings in state revenue during economic cycles. Tax credits for low income families and new property tax relief measures would ensure that the reformed system would not be regressive, according to Senator Woodbury.

The only other supportive testimony came from a handful of legislators, three municipal officials, the Maine Municipal Association, and three members of the public.

The opposition, however, was overwhelming—at least numerically. Thirty-six people testified against the bill, representing a wide range of industries, businesses, and associations.

Opponents of LD 1496 called attention to the individual industries they represented and the impact they feared, mostly from increased sales taxes or the elimination of tax exemptions. Hotels and inns objected to the three percent increase on the lodging tax. The Maine Bar Association protested the tax on legal fees. Some who testified were more guarded. The National Federation of Independent Businesses referred to the bill as “sweet and sour” tax reform, praising the effort to shift taxes to non-residents but opposing the new state spending that would be possible due to \$320 million in net new revenue.

The exact financial impact on individual industries is difficult to gauge, and Senator Woodbury did not provide those details. But regardless of the dollar amount at stake, the opposition is well prepared for what looks like one more battle in a long war.

Campaign Money and Tax Reform

The record of political money surrounding LD 1496 is stark: opposition to the bill comes largely from commercial interests that would see a tax increase on their product or service. Many of these interests learned long ago that this tax reform concept would return time and again. They understand how to use campaign contributions to bolster their clout and how to spend money in initiative campaigns to undo the work of the legislature.

This Flash Report looks at nine of the industry sectors affected by LD 1496 and their patterns of political giving over the past thirteen years. Those sectors consistently weighed in with large campaign contributions, giving an overall total of \$6,008,509 to candidates and candidate-oriented PACs. Contributions focused on ballot initiative campaigns are not included in this section.

Attorneys & Lobbyists—\$2,584,933

According to the Maine Bar Association, only four states collect taxes on professional services such as legal fees. Attempting to add Maine to that list, Senator Woodbury made a bold move that would affect a powerful constituency. But lawyers and law firms are among the most generous contributors to Maine campaigns and are ubiquitous in the State House. The chance of a six percent “lawyer tax” succeeding in this atmosphere seems slim at best.

Recreation, Lodging & Tourism—\$878,000

Maine is a great vacation destination, and a large slice of the economy depends on business from tourists. LD 1496 assumes that those visitors can be tapped to provide new state revenues. But political contributions from hotels, inns, ski resorts, and affiliated interests give this sector continued

clout in Augusta. Figure 9-1 includes contributions from gaming interests.

Real Estate—\$794,959

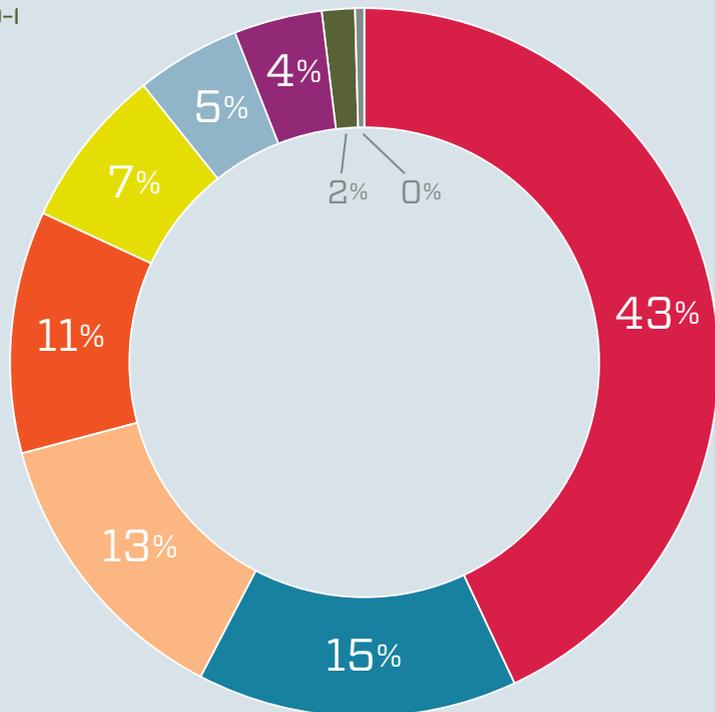
Brokers, mortgage underwriters, and others involved in the real estate industry found a lot to object to in LD 1496. First, the real estate transfer tax would increase. Second, the home mortgage deduction under state law would disappear. Third, “real property services” and real estate brokers’ fees would lose their sales tax exemptions. Fortunately for the industry, their total contributions rank third among the sectors analyzed for this report, likely serving as leverage to fight this bill.

Alcohol—\$663,985

Taxes on beer, wine, and hard liquor would double under LD 1496. Trade associations in this sector, together with a few prominent individuals and national corporations, ensure that their opposition is heard

Contributions from Industry Sectors that Would Face New or Increased Sales Taxes Under LD 1496 (2000 to 2013)

FIGURE 9-1



Attorneys & Lobbyists
\$2,584,933

Real Estate
\$794,959

Television & Telecom
\$442,573

Tobacco
\$242,168

Recreation, Lodging & Tourism
\$878,000

Alcohol
\$663,985

Food
\$286,141

Restaurants
\$90,624

Car Rental
\$24,850

by making consistent contributions to Maine legislative candidates and political action committees.

Television & Telecom—\$442,573

LD 1496 would subject basic cable and satellite television services to the standard sales tax and also eliminate the exemption for “telecommunications services.” The industry opposed the change as an unwise tax on the lowest income households who can’t afford deluxe cable packages.

Food—\$286,414

The food manufacturing, distribution, and retail sector has enjoyed an exemption from sales tax because their products are considered “necessities of life.” LD 1496 would end that exemption, subjecting groceries to a six percent sales tax. From Joseph’s Meat Market to the Grocery Manufacturers of America, many

businesses and associations in this sector are active contributors.

Tobacco—\$242,168

The cigarette tax would increase from \$2.00 to \$3.50 per pack under LD 1496, and the tax on other tobacco products would be raised to equal that of cigarettes. (Report #8, “Tobacco Policy—How Political Contributions from Tobacco Companies and Their Allies Tilt the Playing Field in the Maine Legislature,” explored the contribution pattern of this industry in more detail.)

Restaurants—\$90,624

LD 1496 would increase the meals tax from 7% to 8% and apply it to more types of dining establishments. The Maine Restaurant Association and its allies routinely give to political campaigns in order to fortify their lobbying position.

Car Rental—\$24,850

LD 1496 would increase the tax on car rentals from 10% to 15%. This increase would mostly affect non-residents. Rental car businesses are a comparatively small player in political campaign giving.

2010 People’s Veto

Many of the same entities opposed to LD 1496 fought to defeat a similar bill that passed in 2010. The opposition generated a successful people’s veto campaign in June of that year, with a total of more than \$1 million spent by the two sides in this campaign. Records of how those campaigns were financed— separate from the information provided above— show that in the end, proponents of the tax reform proposal (supported by Democratic allies in the State House and the Blaine House) actually outspent the people’s veto advocates in this high-stakes referendum.

2010 Tax Reform People's Veto Campaign Contributors

FIGURE 9-2

Position	Organization/Committee	Amount
Oppose	No Higher Taxes for Maine PAC (PAC)	\$618,780
Oppose	Maine Center for Economic Policy (BQC)	\$27,719
Support	Save the Mortgage Interest Deduction (BQC)	\$343,306
Support	Still Fed Up With Taxes (PAC)	\$109,389
Support	Vote YES to Reject New Taxes (PAC)	\$51,727

Conclusion

This Flash Report analyzes 12,195 contributions identified from nine of the economic sectors that would be directly affected by LD 1496. Those contributors have given \$6,008,509 to influence Maine elections since 2000—enough to ensure that each has a place at the table for any legislative debate on tax reform or other policies that concern them.

Time will tell whether LD 1496 meets the same fate as other tax reform proposals. Will the Maine Legislature muster the will to restructure Maine's tax

code to stabilize revenues and oblige visitors to pony up a little more during their stay? Or will the entrenched interests in Augusta frustrate yet another attempt to deal with these perennial issues?

Maine Citizens for Clean Elections takes no position on LD 1496. We raise the issue of campaign contributions in the context of this legislative battle because Maine people have the right to know how particular interests gain and use influence in Augusta. As LD 1496 makes its way through the legislative process, each

and every Senator and Representative must weigh the impact of the bill not only on particular interests, but also on their own constituents and the state of Maine as a whole.

The tension between true democratic representation and allegiance to campaign funders contributes to citizens' skepticism of their government. But there is a better way. A strong Clean Election system is Maine's best defense against the appearance of favoritism and unfairness generated by systematic campaign giving intended to influence the public's business.



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