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

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The Money in Politics Project team includes Andrew Bossie, John Brautigam, Ann Luther, BJ McCollister, and Alison Smith. MCCE appreciates the efforts of many others whose contributions enhanced this report.

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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 $6,088,509 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—$784,959
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.
by making consistent contributions to Maine legislative candidates and political action committees.

**Television & Telecom—$427,573**

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 the exemption for “necessities of life.” LD 1496 would end that exemption for groceries to a six percent sales tax. From Joseph’s Meat Market to the Maine Restaurant Association and its allies, the food sector has a comparative advantage under LD 1496, and the public support they have generated is a critical part of their influence-generating strategy. The opposition generated by systematic favoritism and unfairness against the appearance of entrenchment is Maine’s best defense against continuous attempts to deal with these perennial issues.

**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 voters 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 funding intended to influence the public’s business.