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The Potential Economic Impacts from the 3 Percent Surtax on Incomes over $200,000

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The Office of Policy and Management (OPM), in consultation with the Office of Tax Policy, has analyzed the potential economic impacts of the recent law passed by referendum creating a 3% surtax on incomes over $200,000 for additional education funding. OPM staff looked at several different scenarios using the REMI PI+ modeling software maintained by the office.

The results of the analysis indicate that the new surtax, as written, will have a negative impact on Maine's economy, including reductions in employment, population, gross domestic product (GDP), and income relative to the baseline economic forecast.

OPM staff estimate that in the first year of the new policy—

- Private sector employment will be negatively impacted by 2,400 - 4,300
- Real disposable incomes will be negatively impacted by $400 - $600 million
- Maine's population will decline by 800 - 1,400
- GDP will be negatively impacted by $40 - $160 million

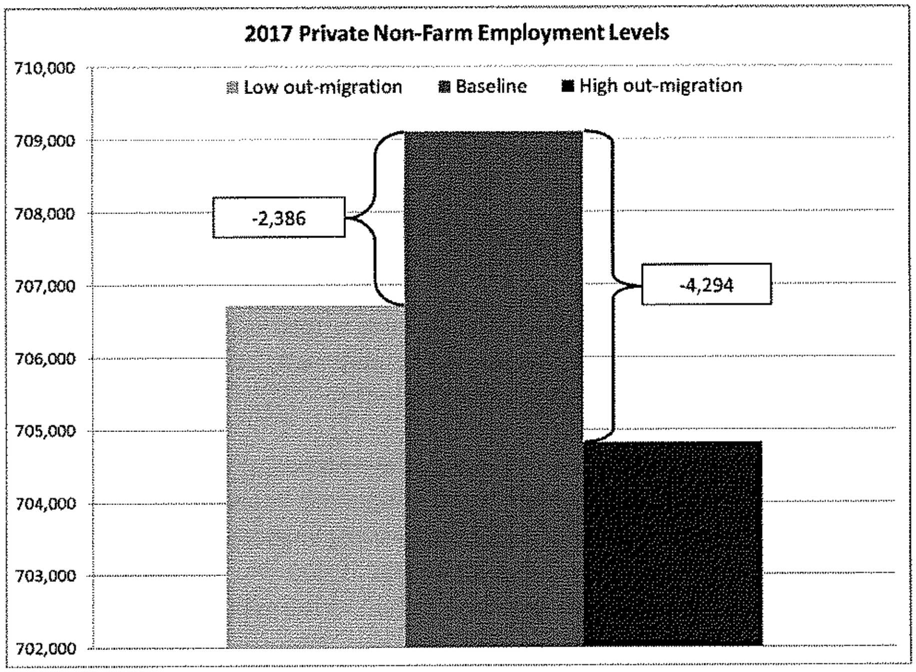
These estimates assume the policy change will cause an outward migration of 780 – 1,255 individuals (the surcharge is expected to directly impact approximately 16,000 tax payers). If outward migration induced by the policy change is higher than expected, the negative results would be magnified. Additional assumptions and the process by which these estimates were formed are outlined below.

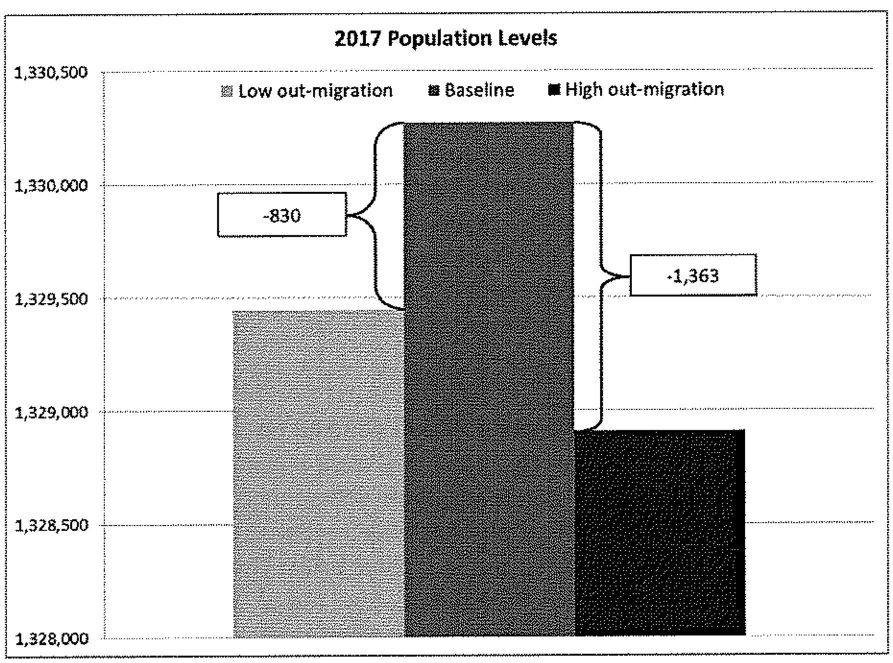
The analysis required identifying reasonable assumptions around personal tax and production cost increases as well as expenditure changes by local governments. OPM worked with the Office of Tax Policy to develop these assumptions. After reviewing multiple scenarios, OPM identified two that seemed to provide the most reasonable combination of assumptions. Each scenario was compared to a baseline (i.e. no policy change) scenario built into the modeling software. The baseline itself was modified to match the employment and population growth from the November 1, 2016, Consensus Economic Forecasting Commission report.

Both of these scenarios assume that some of the approximately 16,000 affected taxpayers (either individuals or families) make income changes – by sheltering a portion of their income – that will result in an 11% reduction of revenues received by the state. Additionally, both scenarios assume that all of the out-of-state taxpayer liability and 20% of the in-state taxpayer liability are borne by businesses and represent an increased production cost rather than an increase in personal taxes. The scenarios also assume that one third of the tax increase would have been invested or spent out of state, reducing the effects on in-state consumption. On the expenditure side, both scenarios assume that 75% of the revenues are spent by local governments on K-12 education expenses and the remaining 25% are spent by local governments on other expenses. Where the two scenarios differ is in the assumption around the out-migration of the affected taxpayers. One scenario uses a low out-migration assumption (781 high income individuals) while the other uses a high out-migration assumption (1,255 high income individuals). These migration assumptions are used to determine the additional income lost because the out-migrants are high income taxpayers rather than average taxpayers.

Both of the scenarios result in negative economic effects relative to the baseline forecast over the next few years. Several key indicators are shown in the following charts, including employment, population, GDP, and income.

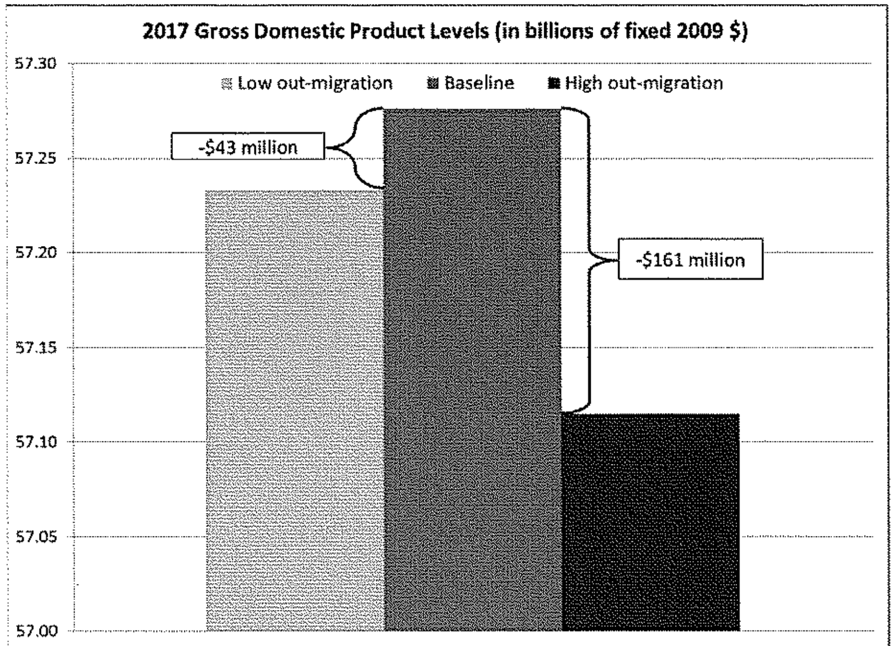
Private non-farm employment loss ranges from nearly 2,400 (0.3%) to nearly 4,300 (0.6%) compared to the 2017 baseline. Note that employment includes both full-time and part-time employment and so is higher than the figures typically reported by the Maine Department of Labor.

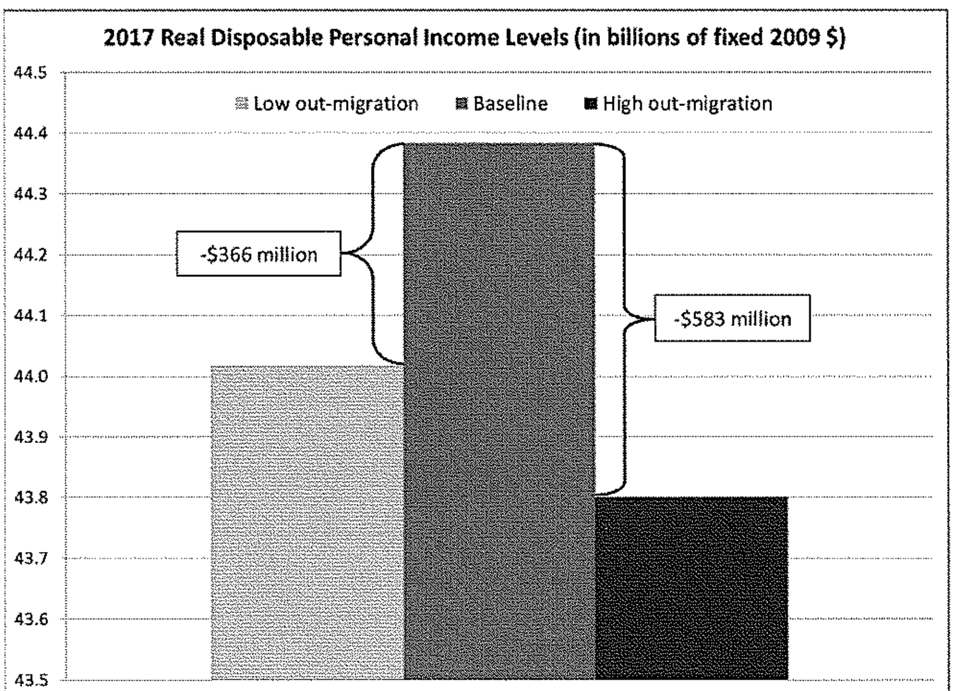




Population levels in 2017 range from 830 (0.1%) to 1,363 (0.1%) below baseline.

For this analysis, gross domestic product (GDP) is measured in billions of fixed 2009 dollars. The low out-migration scenario is $43 million (0.1%) below the baseline in 2017 while the high out-migration scenario is $161 million (0.3%) below baseline.





Disposable personal income is also measured in billions of fixed 2009 dollars. In 2017, the loss ranges from $366 million (0.8%) to $583 million (1.3%) below baseline.