

# **Legislation For Tax Fairness For Civil Servant Retirees in Maine, USA.**

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## **Introduction**

The pension tax system in Maine is similar to that of some other states in the United States of America. The tax pension system has changed over time with full tax exemption on Military and Railroad benefits and Social Securities. Also, there's an exemption of up to \$10000 for civil servants which includes 401ks and IRA as well.

However, many civil servants feel this form of taxation of pension isn't fair as it has no equity and pensioner who have no social security feel cheated (WGME, 2019). There's also the fear of double taxation on pensions of civil servants that migrate to Maine for retirement after their pension has taxed by the source state where they resided.

In this paper, I look into the problems of Maine pension tax system and proffer possible practical solutions to it. This is to replace the possible double pension taxation and inequity by introducing a migrant tax data system and a progressive tax system on pensions after an increased dedicated exemption amount.

Furthermore, the subsequent sections discuss the review of Maine pension taxation system and the possible solution in details for fairness. Also, the advantages and disadvantages of this proposed solution are given and a conclusion at the end to summarize the whole document.

## **Pension Taxation in Maine**

The taxation system of pension in Maine has changed over time with different legislations in the hope to be fair on civil servants. It is transparent but quite complex.

Taxation of retirement income of civil servants are done during contributions and if deferred, are subsequently done. But this taxation doesn't affect the whole income except the sum above the \$1000 exemption.

Also, there's no tax on Social Securities. However, if untaxed social security is \$10000, the exemption doesn't apply to whoever receives such. This is got from a paraphrased speech of Maine lawmakers which states, " The \$10000 exemption on pension tax is to serve as a relief. But if pensioner should receive up to \$10000 in untaxed Social Securities, then the relief has been achieved" (Maine Tax-Aide, 2021).

Occupational pensions like that of the military are exempted from taxation. This is due to the Supreme court case won in 1992, in *Barker v. Kansas*, which U.S. military taxation. Railroad Retirement benefits are also exempted (Snell and Waisanen, 2009).

Private pensions are also taxed but are different from that of civil servants. And it seems fairer than that of civil servants (WGME, 2019)

## **Problems of Pension Taxation in Maine**

As introduced, the main problems of taxation of pension in Maine are Inequity and fear of double taxation.

## **1. Inequity**

To achieve fairness in fixed incomes like pensions, progressive taxation is needed especially with different tax benefits accorded to individuals based on where they worked.

Progressive taxation leads to horizontal equity amongst all pensioners as deductible tax will solely be based on the amount of pension left after the dedicated exemption.

## **2. Fear of Double Migration**

The migration of pensioners is a problem in pension taxation. Pensioners can come from a state where the pension is taxed or is exempted. On getting to Maine, the same pension can then be taxed again as regards the former or will be due for taxation as regards the latter. Thus, we have double taxation in previously taxed pension or pensioner feeling cheated for being tax in Maine for pension exempted from tax in the past resident state.

This problem is another form of inequity and seemingly not quite easy to solve as migration cannot be stopped and taxation is needed for state revenue.

Unlike workers in Maine who have the Maine Public Employees Retirement System (MPERS) which keeps track of workers who choose to contribute to this system. Each contribution is pre-taxed and noted so as not to be taxed again in retirement ( Maine Tax-Aide 2021).

## **A solution to Maine Tax Problems**

### **1.**

Progressive taxation of pensions of civil servants with an increased dedicated exemption amount will lead to better fairness. The increased dedicated amount will favour a lot of pensioners with low pension benefits and leading to happier state pensioners (Kagan 2021).

To the paraphrased Maine lawmakers statement stated above, pensioners indeed need more relief. Some don't get social security and those who do, still get taxed if it meets the exemption amount. To be true to their words on giving relief to pensioners, the dedicated exemption amount should be increased.

Moreover, progressive equity on higher incomes above exemption amount will promote horizontal equity in a lifetime perspective. Civil servants will have a sense of protection on their pensions and feel safe in Maine.

### **2.**

To avoid the double tax trouble and exemption of pension tax for migrating pensioners, a data system should be set to show the previous taxation of pensioners. This will be just like the MPERS but for migrants. This eliminates the problem of;

- If pensioners were already taxed while accumulating pension wealth.
- If total pension benefits were previously taxed before migration to Maine.
- If pension benefits were not taxed before migration to Maine.

This system can be created by getting tax records of migrants from pension source states and data input into a database dedicated from migrant pensioners to determine if they are eligible for taxation on pension and to eliminate the problems.

Also, the pension tax fairness legislation could include a tax exemption on migrants it source states exempt pension tax. This will aid great migration into Maine, and a source of raising revenue through another means since pension tax is off.

### **Pros and Cons to solution Provided**

Implementing the solutions above, Increased exemption fee and progressive taxation of pension, will lead to pension tax equity and social targets like poverty avoidance and happy pensioners.

Also, double pension taxation is avoided and there'll be a system in place to monitor migrant pensioners and methods of raising new revenue by the government.

However, the price to pay for this is revenue loss by the government. It has been identified that Maine has a tax revenue loss of up to 52 million annually due to tax evasion (Beacon, 2020). After implementing these solutions as legislation, these tax loss revenue loss increases, and government may have to increase tax on sales, gas or property.

Also, pensioners with higher pension benefits will seemly be the ones only taxed, thus, be a punishment for their high benefits.

### **Conclusion**

Pension Taxation legislation is not entirely fair to civil servants, especially teachers. And there's a need for legislation to achieve fairness in pension tax for state pensioners and migrants from other states.

Solutions proposed as legislation are progressive taxation and a migrant pensioner system which is to bring about tax equity and elimination of double tax on pension.

Legislating the above solutions will help achieve pension taxation that brings about new equity standards. Moreover, a discussion of these solutions can bring about a rethink of pension taxation amongst other states in the United States of America.

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