

Maine Miracle

Finally, a state that cuts tax rates on the rich.

At last, there's a place in America where tax cutting to promote growth and attract jobs is back in fashion. Who would have thought it would be Maine?

This month the Democratic legislature and Governor John Baldacci broke with Obamanomics and enacted a sweeping tax reform that is almost, but not quite, a flat tax. The new law junks the state's graduated income tax structure with a top rate of 8.5% and replaces it with a simple 6.5% flat rate tax on almost everyone. Those with earnings above \$250,000 will pay a surtax rate of 0.35%, for a 6.85% rate. Maine's tax rate will fall to 20th from seventh highest among the states. To offset the lower rates and a larger family deduction, the plan cuts the state budget by some \$300 million to \$5.8 billion, closes tax loopholes and expands the 5% state sales tax to services that have been exempt, such as ski lift tickets.

This is a big income tax cut, especially given that so many other states in the Northeast and East -- Maryland, Massachusetts, New Jersey and New York -- have been increasing rates. "We're definitely going against the grain here," Mr. Baldacci tells us. "We hope these lower tax rates will encourage and reward work, and that the lower capital gains tax [of 6.85%] brings more investment into the state."

These changes alone are hardly going to earn the Pine Tree State the reputation of "pro-business." Neighboring New Hampshire still has no income or sales tax. And last year Maine was ranked as having the third worst business climate for states by the Small Business Survival Committee. Still, no state has improved its economic attractiveness more than Maine has this year.

One question is how Democrats in Augusta were able to withstand the cries by interest groups of "tax cuts for the rich?" Mr. Baldacci's snappy reply: "Without employers, you don't have employees." He adds: "The best social services program is a job." Wise and timely advice for both Democrats and Republicans as the recession rolls on and budgets get squeezed.

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