

**TESTIMONY OF  
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation  
Hearing Date: 4/12/23

LD 1335 – *An Act to Amend the Property Tax Stabilization for Senior Citizens Law*

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Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 1335 – *An Act to Amend the Property Tax Stabilization for Senior Citizens Law*.

This bill expands the eligibility for homeowners applying to participate in the Property Tax Stabilization Program. It expands the “homestead” definition to include those who have arranged their affairs away from direct ownership of their homestead to achieve other purposes, for example estate tax considerations and healthcare benefits. Bringing those decisions into the Property Tax Stabilization Program, however, departs from the longstanding basic principle of direct home ownership under the homestead exemption program, adds complexity to the program, and raises inconsistencies with other property tax benefit programs.

As was the case in LD 149, previously heard by this Committee this Session, LD 1335 expands the definition of “homestead” in the Stabilization Program statute to include property held in irrevocable trusts. Generally, income and estate tax law recognize property held in revocable trusts established by the homeowners for their benefit as effectively owned by those people. For revocable trusts, the grantor retains the power to revoke the trust and take the assets back during their

lifetime. Conversely, however, and again generally, income and estate tax law align with Maine property tax law in not recognizing an individual who lives in a homestead that is held in an irrevocable trust as the owner of that property.

This proposal creates inconsistency between the ownership eligibility requirements in other taxpayer benefit programs that make an exception for only revocable trusts, such as:

- The property tax exemption for veterans;
- The property tax exemption for legally blind persons;
- The Deferred Collection of Homestead Property Taxes program;
- The Municipal Property Tax Assistance program;
- The Property Tax Fairness Credit;
- The Homestead Property Tax Exemption.

The bill requires taxpayers to report annual property improvements, but it is unclear the purpose of this requirement. If the intent is to require adjustments to the stabilized amount for improvements to the property, specific provisions addressing such changes should be added.

Additionally, restricting qualification to a single property for married taxpayers will limit stabilization for taxpayers who are married but may be separated and living apart.

Finally, expanding the definition of “homestead” only in the stabilization law would have little practical effect. Any additional properties that fell under the new expanded definition in 36 M.R.S. § 6281(1)(C) would still not qualify for stabilization because 36 M.R.S. § 6281(1)(A) also requires that the property be eligible for the homestead exemption under 36 M.R.S. § 681(2), which does not include the expanded language.

The Administration looks forward to working with the Committee on the bill, and the important issues raised by the Property Tax Stabilization Program in general; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.