TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *May 9, 2023*

LD 1810 – "*An Act to Expand the Maine Historic Rehabilitation Credit and Establish a Weatherization Tax Credit*"

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 Neither For Nor Against LD 1810, "*An Act to Expand the Maine Historic Rehabilitation Credit and Establish a Weatherization Tax Credit.*"

This testimony is limited to the bill as it affects Maine Revenue Services. The bill proposes to increase the tax credit for rehabilitation of historic properties under 36 M.R.S. § 5219-BB for taxpayers not claiming the federal rehabilitation credit and establishes a new refundable tax credit for rehabilitation and weatherization of certified historic homes.

Currently, for taxpayers claiming the federal rehabilitation credit, the refundable Maine tax credit for rehabilitation of historic properties is equal to 25% of the qualified rehabilitation expenditures ("QREs") related to the rehabilitation of a certified historic structure, as determined by the Maine Historic Preservation Commission ("MHPC"), that is income producing property located in Maine; for taxpayers not claiming the federal rehabilitation credit, the state credit amount is equal to 25% of the QREs between $50,000 and $250,000 related to a certified historic structure certified by the MHPC. The credit is 35% of QREs for a rehabilitation certified by the Maine State Housing Authority as an affordable housing project.

The maximum amount of the credit is $5 million for a certified rehabilitation placed in service for the taxable year, or for each building that is a component of a historic structure for which the credit is claimed. Twenty-five percent of the credit must be taken in the first tax year the credit may be claimed (generally the year the rehabilitated property is placed in service) and in each of the following three tax years.

The Administration notes that the proposed historic home credit creates a cliff that will exclude all rehabilitation projects incurring more than $62,500 of QREs.

The Administration also notes the following technical concerns:

- The bill does not contain an application date. Changes to the current credit for rehabilitation of historic properties should be applied so as not to impact existing projects.
- Section 6 of the bill limits the rehabilitation and weatherization credit to a percentage of qualified exterior rehabilitation expenditures between $5,000 and $62,500; however, the increased credit for the creation of new housing allows a maximum credit of $75,000 regardless of the limitation on the qualified expenses.
- The bill does not define a placed in-service date or other qualifying action for purposes of determining what year the credit may first be claimed.
- Proposed section 5219-AAA(3)(A) should be limited to single dwelling historic homes.

- 36 M.R.S. § 191 should be amended to allow MRS to share information with the MHPC for purposes of administering the credit for rehabilitation of historic properties pursuant to § 5219-BB and the credit for rehabilitation and weatherization of historic homes under proposed § 5219-AAA.
- With respect to QREs claimed for the current rehabilitation of historic properties credit for taxpayers not claiming the federal rehabilitation credit, it is not clear if the proposed $1 million limit applies to each project or is a life-time limit that applies to each structure. Unless the limit applies on a life-time basis, it could be used for multiple projects to circumvent the general credit limitations.
- A copy of the certificate should be provided to MRS by the MHCP at the time of certification.

The fiscal impact of the bill is not currently available.

Assuming the proposed credit will apply to tax years beginning on or after January 1, 2024, the estimated administrative costs are $33,000 in fiscal year 2024-2025 for one-time computer programing costs to add an additional line to the individual, fiduciary, and corporate income tax returns to accommodate the new tax credit.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.