

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

Before the Joint Standing Committee on Taxation
Hearing Date: *May 10, 2023*

*LD 1538 – An Act to Provide Tax Benefits to Persons Constructing Accessory
Dwelling Units*

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good morning, 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 1538 – An Act to Provide Tax Benefits to Persons Constructing Accessory Dwelling Units*.

This bill creates a program of State reimbursement to property tax taxpayers of a percentage of property taxes paid for up to ten years due to an increase in the taxes because of the construction of an accessory dwelling unit (ADU). The bill defines ADU's as an attached or detached dwelling unit on the same lot or parcel as an existing or proposed single-family or multifamily residence that allows for independent living for one or more persons and contains kitchen and bathroom facilities and sleeping accommodations.

First, as the bill is currently worded – with references to both “an existing or proposed single-family or multifamily residence” and the definition of “eligible property” – it is unclear whether the intent of the bill is to incentivize wholly new construction, or to incentivize current homeowners to add ADUs to their existing properties. If it is the latter, the bill should require the residence on a lot with an ADU to be an existing homestead as defined by 36 M.R.S. § 681(2). The bill

should also clarify whether there is a limit on the number of ADUs on a particular parcel that may qualify for reimbursement.

Further, the newly created section 6912(3) refers to the “assessed market value” of an ADU. “Assessed value” and “market value” are different terms with different meanings. Property taxes are based on “assessed value;” we recommend the use of that term throughout the bill. This section should also be amended to clarify whether the \$200,000 reimbursement limit applies per taxpayer, per parcel, or per ADU.

Administration of this bill would require a significant amount of State resources to verify information and to undergo property inspections for eligible new construction. Perhaps if the issues listed above could be addressed, this proposal could be part of a comprehensive housing bill; as a standalone bill, it adds another property tax relief program to an already-long list of existing programs administered by MRS.

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.