

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: 5/12/23

*LD 1710 – An Act to Establish the Maine Rental Assistance and Guarantee
Program and Amend the Laws Regarding Tenants and the Municipal General
Assistance Program*

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 providing testimony at the request of the Administration Neither For Nor Against *LD 1710 – An Act to Establish the Maine Rental Assistance and Guarantee Program and Amend the Laws Regarding Tenants and the Municipal General Assistance Program*

This testimony is limited to the bill as it affects the Real Estate Transfer Tax. The bill amends the laws governing the real estate transfer tax by creating a graduated tax based upon the sales price of the real estate and dedicates those funds to assist in funding the Maine Rental Assistance and Guarantee Program.

The Administration notes the following technical and administrative concerns:

- The rate structure in the bill creates a tax cliff at each threshold. For example, if a property was sold for the median sale price of \$334,100, the tax would be \$368 more than the tax on a property selling for \$334,099. This situation may lead to sale price manipulation by buyers and sellers.

Creating a graduated rate structure similar to the income tax, on which the increased rate is only applied to the value above the threshold, would alleviate this situation.

- Due to the differences in property values across the State, the bill's rate structure would result in similar properties being taxed at different rates based on the location of that property.
- The median sale price, as defined and used in the bill to establish the graduated rates, relates to residential property. The real estate transfer tax, however, applies to all real property, residential, commercial, and industrial. The median residential sale price is likely much lower than the median sale price for commercial or industrial property.
- Sec. 19 defines "primary residence," but the changes to the real estate transfer tax rate apply to all property, not just primary residences.
- Increasing the complexity of the transfer tax will likely create additional work and administrative costs for the county registries who calculate and collect the tax.

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.