

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

Before the Joint Standing Committee on Taxation
Hearing Date: *Thursday, May 18*

LD 1873 – “*An Act to Provide Heating Relief with Tax-free Home Energy Savings Accounts*”

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 Against LD 1873, “*An Act to Provide Heating Relief with Tax-free Home Energy Savings Accounts.*”

This analysis is limited to the bill as it affects Maine Revenue Services. For tax years beginning on or after January 1, 2023, the bill proposes a new income subtraction modification to exclude from Maine taxable income an amount up to \$2,500 per year for a single individual (\$5,000 for a married couple) deposited into a home energy savings account under 10 M.R.S., chapter 110, subchapter 15 to the extent included in federal adjusted gross income. The funds must be used for weatherization of, or for fuel and electricity costs incurred for heating the individual’s residence located in Maine. Funds withdrawn from the account that are not used for an authorized purpose are subject to Maine income tax.

The maximum annual benefit for a married couple is \$358 or \$178 for single taxpayers. Most of that benefit would go to higher income households that can afford to spend \$5,000 for weatherization during the year while waiting until the upcoming year to receive the tax incentive.

The Maine State Housing Authority currently administers a weatherization program that provides grants to low-income homeowners and renters to reduce energy costs. The grants may be used to purchase and install insulation, weather-stripping, caulking, and to perform some safety-related repairs. A taxpayer is eligible for the grant if the household is eligible for the Home Energy Assistance Program (“HEAP”). Efficiency Maine also offers insulation rebates for homeowners of any income level. The amount of the rebate is dependent on the improvement and the individual’s income.

If additional weatherization incentive is warranted, a simpler approach for the Committee’s consideration is increasing the existing benefits allowed through Maine State Housing Authority or Efficiency Maine.

The Administration notes that absent certification from the Program Administrator, it may be difficult for taxpayers and MRS to determine the portion of electricity and other costs that are related to heating the residence.

The Administration also notes the following technical concerns:

- The bill should be amended to include an income addition modification under 36 M.R.S. § 5122(1) for account withdrawals for which a subtraction modification was previously claimed that were not used for an authorized purpose.
- The bill should be amended to provide a definition of “weatherization costs” and “fuel.”
- The bill should be amended to require FAME to certify account deposits and whether amounts withdrawn were used for an authorized purpose.

- The bill should be amended to clarify application of the income modifications to married individuals filing separately and head of household filers.
- The bill does not require that the funds be used for weatherization or heating the taxpayer's primary residence.
- The bill does not include recapture provisions in the case a taxpayer receives a reimbursement via a grant or rebate from either the Maine State Housing Authority or Efficiency Maine after the deduction is claimed.

The estimated revenue impact of the bill is not currently available.

As currently written, the bill could affect over 700,000 individual income tax returns filed by Maine residents and part-year residents with Maine source income. Estimated administrative costs are being reviewed to determine the extent of required computer programming changes and additional staff required to process and audit affected returns.

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.