

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

Before the Joint Standing Committee on Taxation
Hearing Date: *Wednesday, May 24, 2023, at 10:00am*

LD 1573 – *“An Act to Provide Financial Relief for Certain Volunteers Under the Corporations for National and Community Service, the Maine Service Fellows and the Maine Climate Corps”*

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 Neither For Nor Against LD 1573, *“An Act to Provide Financial Relief for Certain Volunteers Under the Corporations for National and Community Service, the Maine Service Fellows and the Maine Climate Corps.”*

This testimony is limited to the bill as it applies to Maine Revenue Services (MRS). For tax years beginning on or after January 1, 2024, the bill proposes an income subtraction modification equal to a national service educational award received from the National Service Trust (“AmeriCorps”) under 42 United States Code, Sections 12601 to 12604 for an approved national service position, or an educational loan payment earned through a term of service completed through the Maine Service Fellows Program under 5 M.R.S. section 7506.

AmeriCorps offers a national service educational award to individuals who complete a term of service in an approved national service position. The maximum amount of the award is equal to the maximum amount of the Pell Grant which can change each year (\$6,895 for 2023). The award recipient has a 7-year

period (or a 10-year period, if applicable) in which to use the award. The award is taxable income in the year that the award is used.

The Maine Service Fellows Program provides a program completion bonus that includes an educational loan payment in an amount up to 20% of the stipend value paid on behalf of the program fellow to the holder of the loan (\$6,182 for 2023).

This proposal brings yet more complexity to the state income tax return, creating another modification for a relatively small number of taxpayers.

Additionally, the Administration notes the following technical concerns:

- Section 2 of the bill (page 1 of the bill, line 15) should be amended to replace the word “or” with the word “for”.
- Section 2 of the bill should be amended to reference the Maine Service Fellows Program under 5 M.R.S., section 7506 (page 1 of the bill, line 18).
- The bill does not limit the income subtraction modification to amounts included in federal adjusted gross income.
- The bill does not extend the income subtraction modification to a summer of service educational award or to a silver scholar educational award, also provided by the National Service Trust under United States Code Title 42, Section 12601 to 12604.

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

One-time administrative costs of \$11,000 for computer programming are required in fiscal year 2025 to add a new line to the individual income tax form (Form 1040ME, Schedule 1S), to update check stub messages and notices, to make federal tape changes, and to perform systems testing.

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.