TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

Before the Joint Standing Committee on Taxation
Hearing Date: *March 5, 2025*

LD 554 – "*An Act to Encourage Resident-owned Communities and Cooperatives and Preserve Affordable Housing Through Tax Credits*"

Senator Grohoski, Representative Cloutier, 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 554, "*An Act to Encourage Resident-owned Communities and Cooperatives and Preserve Affordable Housing Through Tax Credits.*"

For tax years beginning on or after January 1, 2025, to the extent included in federal adjusted gross income (for individuals) or federal taxable income (for corporations) and otherwise subject to Maine income tax, the bill proposes an income subtraction modification to exempt up to $750,000 of gain recognized on the sale of a majority ownership interest in a qualified business. The qualified business must provide housing and be transferred to a consumer cooperative or a cooperative affordable housing corporation. A qualified business is any business that is not publicly traded and is registered with the Secretary of State or has its principal place of business in Maine, including a corporation, an S corporation, a limited liability company, a limited liability partnership, and a sole proprietorship. The tax deduction is subject to ongoing evaluation and review by the Office of Program Evaluation and Government Accountability, the Government Oversight

Committee, and the joint standing committee of the Legislature having jurisdiction over taxation matters.

Currently, capital gains are subject to both federal and State income tax.

The Administration notes that the bill title indicates that the bill proposes to preserve affordable housing through tax credits; however, the bill provides a tax exemption through the use of an income subtraction modification.

The estimated revenue impact is a revenue loss of less than $100,000 per year. It may be worth the Committee's consideration whether a benefit of this size is likely to achieve it ends, and whether it justifies the complication to the State's income tax code or whether the benefit might be more effectively and efficiently provided through an alternative method – such as a grant or loan program.

The estimated administrative costs are not available at this time. However, computer programming costs are required to add a line to the individual, fiduciary, and corporate income tax returns to accommodate the income subtraction modification.

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.