

**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 #671 – “*An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget*”

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 Against LD #671, “*An Act to Abolish the Maine Income Tax and Establish a Zero-based Budget.*”

This bill is identical to LD 1434 presented during the 131st Legislature with a final disposition of Ought Not To Pass.

This bill has two parts: it appears intended to eliminate all Maine income taxes for tax years beginning on or after January 1, 2026, and it would require the biennial budget to be prepared on a “zero-based budgeting” approach. This testimony addresses just the taxation aspects.

The bill also requires the Department of Administrative and Financial Services (“DAFS”) to review the Maine Revised Statutes that refer to Maine income tax and submit a report to the Second Regular Session of the 132nd Legislature identifying any necessary changes to implement the act with suggested legislation.

It appears from the Bill Title, Summary, and Section caption that the bill intends to eliminate all Maine income taxes under Part 8, which includes individual, fiduciary, and corporate income taxes, but also includes the financial

institution franchise tax. If that is indeed the intent, the bill's language should be clarified to clearly do so – rather than using the current phrasing that “no tax may be collected under this Part.”

The Administration opposes this bill because it proposes to abolish the income tax altogether without consideration of the impact of those cuts on the services offered by the State of Maine and the people who rely on those services.

The individual and corporate income taxes are an important part of Maine's tax structure. They prevent overreliance on revenue from property and sales and use taxes, add progressivity to the overall State tax system, and serve as a delivery mechanism for many important refundable credits, including the Earned Income Tax Credit, the Property Tax Fairness Credit, the Sales Tax Fairness Credit, and the Dependent Care Tax Credit.

Turning now to more technical concerns, the Administration notes that clarification is needed regarding the applicability of this proposal to the franchise tax, the date by which the report would be due, whether refundable tax credits continue to apply, and whether taxpayers with no tax liability continue to be required to file income tax returns.

The estimated revenue impact of the bill is over \$3 billion a year, with an additional \$450 million per year if refundable credits continue to be paid.

The estimated administrative costs are nominal and can be absorbed by the Bureau. However, any reduction in the Agency's budget will significantly impair the ability of the Division to timely process income tax returns and issue applicable refunds.

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.