

**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: *March 12, 2025*

LD 756 – “*An Act Creating and Sustaining Jobs Through the Development of Cooperatives and Employee-owned businesses by Providing Tax Deductions for Certain Qualified Business Activities*”

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Senator Grohoski, Representative Cloutier, 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 Against LD 756, “*An Act Creating and Sustaining Jobs Through the Development of Cooperatives and Employee-owned businesses by Providing Tax Deductions for Certain Qualified Business Activities.*”

This bill is substantially similar to LD 1276, presented during the 131st Legislature which Died Upon Conclusion of the 131st Legislative session, except that this bill does not require businesses that provide housing to be transferred to cooperative affordable housing ownership.

This analysis is limited to the bill as it affects taxation. For taxable years beginning on or after January 1, 2025, to the extent included in federal adjusted gross income (for individuals) or federal taxable income (for fiduciaries and corporations) and otherwise subject to State income tax, the bill proposes two income subtraction modifications to:

- 1) exempt up to \$750,000 of gain recognized on the sale of a majority ownership interest in a qualified business to an employee stock ownership plan or a Subchapter S corporation owned by an employee stock ownership plan, an eligible worker-owned cooperative, a consumer cooperative, or a producer cooperative; and
- 2) exempt interest received during the taxable year by the lender, including financial institutions subject to the Maine franchise tax, with respect to a qualified business acquisition loan.

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

Carving out certain types of capital gains for a tax incentive complicates the income tax, applies to only a small number of transactions each year, and primarily benefits upper-income households. Further, it is not clear that a capital gains exclusion will incentivize these types of sales.

The Administration notes the following technical concerns:

- As currently written, the bill will not provide a tax benefit for financial institutions electing to be taxed on the basis of Maine assets.
- The bill should define “producer cooperative” or clarify whether it is the same as an “Agricultural Cooperative” organized under 13 M.R.S., c. 85, sub-c. 2.
- Clarification should be provided for the tax treatment of gains resulting from installment sales or deferred gains claimed over a number of years.

The estimated revenue impact is a revenue loss of approximately \$600,000 per year.

Estimated administrative costs are under consideration. The bill will require one-time computer programming and related systems testing costs to add two new lines to the individual, fiduciary, and corporate income tax returns and one new line to the franchise tax return to accommodate the additional income subtraction modifications.

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.