TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *March 13, 2025*

LD 856 – *"An Act to Phase Out the Income Tax"*

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 856, "*An Act to Phase Out the Income Tax.*"

This bill is substantially similar to LD 835, presented during the 131st Legislature. Both the House and Senate chambers of the Legislature accepted the Committee vote of Ought Not To Pass.

This bill has two parts: it proposes to phase out the Maine individual and corporate income taxes over a period of five years beginning in 2026 with the tax completely phased out in tax year 2030, and it requires the state department budgets to be reduced proportionally. This testimony addresses just the taxation aspects of the bill.

The bill also requires Maine Revenue Services to submit legislation to the joint standing committee of the Legislature having jurisdiction over taxation matters that corrects any conflicts in the Maine Revised Statutes resulting from the repeal of the individual and corporate income taxes. The Taxation Committee may report out a bill to the 134th Legislature in 2029 making the necessary changes.

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, but not limited to, the Dependent Exemption Tax Credit, 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:

- The bill does not eliminate the requirement to file Maine income tax returns for taxpayers no longer subject to Maine income tax.
- The bill only applies to the individual and corporate income tax; it does not apply to fiduciary income tax under 36 M.R.S. § 5160.
- The bill should clarify whether refundable tax credits continue to apply.
- Sections 5 and 8 of the bill should be amended to apply to "tax years beginning on or after January 1, 2030," to minimize confusion regarding the application of those sections.
- The reference to 2017 in the heading of 36 M.R.S. § 5200, sub-§ 1-A included in Section 6 of the bill should be changed to 2018.
- Section 7 of the bill should be amended to remove the phrase "and ending before January 1, 2030," included on page 2, beginning on line 33. The tax year beginning in 2029 for many corporate taxpayers will end after January 1, 2030.

The preliminary estimated fiscal impact of this bill is a revenue loss of $262,100,000 for 2026, $964,600,000 for 2027, $1,743,200,000 for 2028, and $2,585,900,000 for 2029.

The estimated administrative costs are nominal and can be absorbed by the Bureau. However, any reduction in the Agency's budget, as described above, will significantly impair MRS's ability 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.