

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

Before the Joint Standing Committee on Health Coverage, Insurance and Financial
Services

Hearing Date: *March 25, 2025*

LD 902 – “*An Act to Establish the Medical Debt Relief Program*”

Senator Bailey, Representative Gramlich, and members of the Health Coverage, Insurance & Financial Services 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 902, “*An Act to Establish the Medical Debt Relief Program.*”

This testimony is limited to the bill as it affects taxation and Maine Revenue Services. The bill establishes the Medical Debt Relief Program, administered by the Department of Professional and Financial Regulation, Bureau of Consumer Credit Protection, to relieve medical debt for Maine residents whose federal adjusted gross income is not more than 400% of the federal poverty level. Any amount of medical debt discharged, cancelled, or forgiven under the program may not be included in the resident’s Maine taxable income.

Generally, except for certain exclusions under Section 108 of the Internal Revenue Code, including, but not limited to, Chapter 11 bankruptcy and the insolvency of the taxpayer, the amount of discharged, cancelled, or forgiven medical debt is subject to both federal and state income tax.

The Administration notes that the bill contains several technical and administrative concerns that should be addressed if the Committee is interested in supporting this bill:

- The bill should be amended to include an income subtraction modification in 36 MR.S. § 5122, sub-§ 2 to facilitate a reduction in Maine taxable income equal to the amount of discharged, cancelled, or forgiven medical debt, to the extent included in federal adjusted gross income.
- The Committee should consider requiring the Bureau of Consumer Credit Protection to provide information on relieved medical debts to MRS to validate the reduction in taxable income.

The preliminary estimated fiscal impact is currently not available.

The preliminary estimated administrative costs have not yet been determined. However, computer programming and related system testing costs will be required to add one income subtraction modification line to the individual income tax return.

The Administration looks forward to working with the Committee on the bill.