

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

Before the Joint Standing Committee on Taxation
Hearing Date: *April 16, 2025*

LD 1504 – “*An Act to Support Small Businesses by Providing a Refundable Tax Credit to Certain Businesses to Offset Credit and Debit Card Transaction Fees*”

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 1504, “*An Act to Support Small Businesses by Providing a Refundable Tax Credit to Certain Businesses to Offset Credit and Debit Card Transaction Fees.*”

This testimony is limited to the bill as it affects Maine Revenue Services. This bill proposes a new refundable income tax credit for businesses with less than \$2,400,000 in gross sales annually that accept credit cards or debit cards as payment for goods and services sold by the business and are charged a fee by the issuer of those cards. The credit is equal to the amount of the fees paid by the business to the credit card issuer or 2.5% of the sales tax remitted to the State by that business, whichever is less.

It is important to note at the outset that a business’s credit card and debit card transaction fees are like other standard business expenses and as such are deducted from gross income to arrive at federal taxable income of the business. The benefit of that deduction then carries through to the calculation of the business’s Maine income tax. Unlike policy reasons that support targeted business tax credits to incentivize business investment or employment, and in particular

refundable tax credits, the refundable business tax credit proposed by LD 1504 is a much less targeted tax benefit. If the Committee wishes to consider some manner of benefit, the Administration notes that this bill should be coordinated with LD 151, also presented this Session, which proposes to allow businesses to impose a surcharge on debit card or credit card transactions.

The Administration also notes the following technical concerns:

- The bill does not contain an application date.
- The bill should be amended to consistently refer to the “taxable year” of the taxpayer. See proposed § 5219-CCC(1)(D), § 5219-CCC(2), and § 5219-CCC(4).
- The bill contains several terms that should be defined, including “agent,” “business,” and “located in this state.”
- This bill creates a cliff, whereby businesses with gross sales of less than \$2,400,000 are eligible for a refundable tax credit, while businesses with gross sales of \$2,400,000 or more are not eligible for any credit.
- The proposed credit will increase the burden on both taxpayers justifying credits claimed and the administration validating credits claimed – if the intent of the credit is to offset the cost of credit card fees on collected sales tax there are simpler alternatives.
- Adding another refundable credit may increase the risk of fraudulent claims.

The preliminary fiscal impact estimate for the bill is a revenue loss in the range of \$5 million to \$6 million.

The preliminary estimated administrative costs are under review. Computer programming and related system testing costs are required to add an additional line to the individual, fiduciary, and corporate income tax returns to accommodate the credit.

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.