TESTIMONY OF
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Before the Joint Standing Committee on Labor
Hearing Date: *April 23, 2025*

LD 1712 – "*An Act to Amend the Paid Family and Medical Leave Benefits Program to Balance Support of Businesses and Employees*"

Senator Tipping, Representative Roeder, and members of the Labor 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 the taxation provisions of LD 1712, "*An Act to Amend the Paid Family and Medical Leave Benefits Program to Balance Support of Businesses and Employees.*"

This testimony is limited to the bill as it affects taxation and Maine Revenue Services. The taxation of Paid Family Medical Leave ("PFML") benefits is complex and for tax compliance and administration purposes deviating from conformity with federal law is not recommended.

The proposed amendments in Sections 9, 10, 11, and 12 of the bill are identical to those proposed in LD 106, also presented this Session and withdrawn on April 10, 2025. LD 106 would have provided guidance on the State taxation of PFML benefits in the absence of direct guidance from the IRS. However, the IRS recently issued guidance (Rev. Rul. 2025-4) regarding federal taxation of PFMLA contributions and benefits paid on or after January 1, 2025. Maine conforms to the federal tax treatment. As such, these provisions are no longer necessary.

Benefits are generally federally taxable as follows:

1) All family leave benefits; and

2) Certain medical leave benefits attributable to the mandatory employer portion of contributions.

   Medical leave benefits attributable to <u>*employee contributions*</u>*, including employee contributions voluntarily "picked-up" by the employer, are excludible from the individual's federal gross income.*

For tax years beginning on or after January 1, 2026, this bill would instead provide an income addition modification for benefits paid from the Maine PFML program to the extent not already included in federal adjusted gross income. The bill also provides an income subtraction modification for repaid PFML benefit amounts that were previously taxed by the State. These modifications would result in PFML benefits being taxed at the State level that are not subject to federal taxation. The bill also allows individuals filing a new claim for PFML benefits to elect to have the administrator of the program deduct and withhold state income tax from the individual's payment of benefits at the rate of 5%. The Maine Department of Labor ("DOL") is required to inform PMFL claimants that the benefits are subject to state income tax and to inform recipients of Maine estimated income tax payment requirements.

Although not within the intended scope of the bill, the Administration notes that this bill does not address the Maine income tax treatment of employee contributions under the PFML Act. However, under the recent IRS guidance, both employer "pick-up" contributions and employee contributions are taxable.

The Administration also notes that, while technically correct, the first sentence of Section 7 of the Summary might be misunderstood. The effect of the bill would be that PFML benefits are taxable to Maine *whether or not* the benefits are included in federal adjusted gross income.

The preliminary estimated fiscal impact is under consideration.

The preliminary estimated administrative costs are $12,844 in fiscal year 2026-2027 for one-time computer programing costs are required to add additional lines on the 2026 Form 1040ME, Schedule 1A and Form 1040ME, Schedule 1S and related processing systems and to perform systems testing.

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