TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *May 6, 2025*

LD 1735 – "*An Act to Provide an Income Tax Deduction for Certain Contributions to a Qualified Achieving a Better Life Experience Program Account*"

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 1735, "*An Act to Provide an Income Tax Deduction for Certain Contributions to a Qualified Achieving a Better Life Experience Program Account.*"

This bill would further incentivize an already incentivized activity for a narrow range of taxpayers (those with enough income to utilize a deduction, but still below the income limit) at a modest level, with the maximum tax benefit from this proposal being less than $75.

Consideration should be given to whether an additional incentive is necessary, whether a benefit of this magnitude is likely to achieve the aims of the bill, and whether it outweighs the complexity of deviating from federal income tax law.

For tax years beginning on or after January 1, 2025, this bill proposes an income tax subtraction modification to exempt a portion of the contributions made to a qualified account established under the federal Achieving a Better Life Experience (ABLE) program. The income subtraction modification is equal to the contributions made to a qualified ABLE account, up to $1,000, for each eligible individual. The subtraction modification may not be claimed by taxpayers whose federal adjusted gross income exceeds $100,000 if filing single or married filing separately or $200,000 if filing head of household or married filing jointly. This bill aligns the Maine tax treatment of contributions to a qualified ABLE account with those made to a qualified tuition program, established under the Code § 529.

Currently, contributions to an ABLE account are made on an after-tax basis for both federal and Maine income tax, therefore the contributions are subject to both federal and State income tax. Qualified distributions, including earnings, are exempt from both federal and Maine income tax if used to pay qualified disability expenses. This current law treatment is similar in function to a ROTH IRA, whereby contributions are taxable upon initial investment but are tax exempt once withdrawn if used for qualifying purposes.

It is worth noting this bill is likely to affect only a small number of taxpayers. For reference, only 3,900 tax returns benefit from the subtraction modification for contributions to 529 plans, which is likely a more utilized program than ABLE. Notably, the federal Joint Committee on Taxation doesn't include the ABLE plans in their tax expenditure report because the estimated loss is below their de minimis threshold. The limited application of the proposed subtraction modification should also be weighed against the increased complexity in the State tax code it generates and alternative, non-tax solutions considered.

The Administration notes that the bill should be amended to clarify that the deduction is allowable only to the extent the income is included in federal adjusted gross income and not otherwise used to reduce Maine taxable income.

The preliminary estimated fiscal impact is not currently available.

The preliminary estimated administrative costs are under review. One-time computer programming and related system testing costs are required to add an additional line to the individual and fiduciary income tax returns.

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.