

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *May 8, 2025*

LD 1755 – “*An Act to Increase the Maine Historic Property Rehabilitation Tax Credit in Rural Areas*”

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 1755, “*An Act to Increase the Maine Historic Property Rehabilitation Tax Credit in Rural Areas.*”

LD 146 and LD 435, both presented this session, also propose to accelerate or expand the historic rehabilitation credit. The majority of the Taxation Committee has voted Ought To Pass As Amended on both bills. Instead of enacting three separate accelerations or expansions of the historic rehabilitation credit, the Administration recommends a more measured approach focused on Senator Rotundo’s bill, LD 146. Not only is such an approach more feasible in the current fiscal climate, it would also allow the Legislature to gauge the effect of LD 146 along with the expected increase in the overall cost of the credit, before further expanding the program.

This bill proposes to increase the Maine tax credit for rehabilitation of historic properties for which the federal rehabilitation credit under Internal Revenue Code, Section 47 is claimed from 25% to 35% of the qualified rehabilitation expenditures (“QREs”) for certified projects located in rural areas of the State as long at least 33% of the aggregate square feet of the certified historic

structure constitutes apartments, dwellings, or other living accommodations. A rural area is any area within a municipality that has a population of less than 17,500 inhabitants as determined by the latest decennial census of the United States. The proposed changes apply retroactively to tax years beginning on or after January 1, 2024 – it is unclear how this proposal could incentivize activity that has already occurred.

Currently, the refundable Maine tax credit for rehabilitation of historic properties is equal to 25% of the QREs related to the rehabilitation of a certified historic structure, as determined by the Maine Historic Preservation Commission (“MHPC”), that is income producing property located in Maine. The credit is increased to 35% of QREs for a rehabilitation certified by the Maine State Housing Authority as an affordable housing project.

The credit for rehabilitation of historic properties may not exceed the greater of \$5 million for the portion of the certified rehabilitation placed in service during the taxable year, and \$5 million for each building that is a component of a certified historic structure. The refundable credit must be taken over a period of four tax years equal to 25% during the tax year in which the credit may first be claimed and 25% for each of the subsequent three tax years. Thus, the maximum credit that may be claimed in a taxable year for any portion of a rehabilitation is \$1,250,000.

The cost of the current historic credit is forecasted to double over the next few years.

The Administration notes the following technical concerns:

- The definition of “rural area” is unclear as to whether this includes a municipality or city within the State or whether this means a select area within that municipality or city.

- The bill is unclear as to whether the increased credit may be claimed for a certified rehabilitation placed in service in an unorganized territory within the State.
- The retroactive application date in Section 3 of the bill may affect currently certified rehabilitation projects already placed in service or those in progress. The bill should be amended to specify how the increased credit is to be claimed, especially in the case of returns that have already been filed. Some taxpayers that have already filed a tax return may be required to file an amended return to claim the increased credit.

The preliminary estimated fiscal impact is currently not available.

The preliminary estimated administrative costs are nominal and can be absorbed within current budgetary allotments.

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.