

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

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

LD 1889 – “An Act to Expand Tax Incentives for Certain Barn Renovations”

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 1889, “An Act to Expand Tax Incentives for Certain Barn Renovations.”

LD 1889 would establish a barn preservation incentive program and tax credit. This testimony is limited to the bill as it relates to the administration by Maine Revenue Services (MRS) of the proposed income tax credit. For tax years beginning on or after January 1, 2026, the bill proposes a new income tax credit equal to 40% of total expenditures that exceed \$25,000 used “to preserve, restore, and renovate” a barn located on a residential property and used for noncommercial purposes. Although unclear as drafted, it appears that the credit allowed may not exceed \$1,600,000 for any one tax year and is refundable up to \$400,000 for any one tax year. The credit and the refundability cap must be prorated among members of pass-through entities. Unused credit amounts may be carried forward for up to 4 succeeding tax years.

The bill also creates an annual reporting requirement. By December 31, 2027, and annually thereafter, the assessor must report to the Department of Economic and Community Development (DECD) the following information with

respect to each barn for which the credit is claimed: the municipality where the barn is located, the value of capital investments, and the credit amount allowed for the taxpayer for the prior tax year. On or before March 1, 2028, and annually thereafter, DECD must report to the Taxation Committee, and the committee having jurisdiction over economic development matters, certain information on the tax credit, including the information reported to it by the assessor.

The purpose of the barn preservation incentive program and the role of DECD relative to the program is unclear. Additionally, MRS lacks the agricultural activity expertise necessary for evaluating whether property would meet the “barn” definition in the bill. If the Committee wishes to move forward with the bill, it should consider amending the bill to provide for a certification process administered by DECD, like the procedures established for the credit for investment in qualified professional baseball facilities in the State under 36 M.R.S. §5219-BBB(2).

With respect to technical concerns, the Administration notes the following:

- The bill does not limit the credit to an eligible barn located in Maine.
- The bill limits the credit to a barn that was originally constructed for purposes of the storage of farm products, the housing of livestock, or the storage of farm equipment. However, the bill does not limit the credit to an eligible barn that is currently being used, or intended to be used, for these purposes.
- The definition of “eligible barn” in Section 4 of the bill that requires the barn to be used for noncommercial purposes by its owner conflicts with the requirement that the annual credit be prorated among members of pass-through entities. In the case of S corporations and

most partnerships, the property owned by the entity would generally be used for commercial purposes.

- The bill should be amended to clarify whether the annual credit limits apply to each project, or to each taxpayer (i.e., can a taxpayer claim multiple credits for multiple barn restorations or continue to make renovations over several years without completing the restoration?).
- The bill should be amended to clarify the expenditures that may be included in the eligible capital investment and whether this is limited to labor and materials as indicated in the definition of “restoration.”

The preliminary estimated fiscal impact is not available at this time.

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, fiduciary, and corporate income tax returns to accommodate the credit. Additionally, a worksheet will need to be developed to calculate the allowable 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.