TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *May 16, 2025*

LD 1617 – "*An Act to Lower the Exclusion Amount for the Estate Tax and Create an Exclusion for Family Farms and Aquaculture, Fishing and Wood Harvesting Businesses*"

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good morning, 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 1617, "*An Act to Lower the Exclusion Amount for the Estate Tax and Create an Exclusion for Family Farms and Aquaculture, Fishing and Wood Harvesting Businesses.*"

This bill is similar to LD 1338 presented by Representative Collings of Portland during the 131st Legislature with a final disposition of Ought Not To Pass.

This bill increases the Maine estate tax by reducing the Maine estate tax exclusion amount and creates an additional special exclusion amount for certain estates. Only estates worth more than the Maine exclusion amount are subject to the Maine estate tax.

Seventeen states have an estate or inheritance tax. Only NY and CT have an exemption amount that is higher than Maine. The combination of a relatively high top marginal income tax rate and an estate tax gives high-income households an incentive to change their residency to avoid both taxes. In addition, while States have varied over time in the degree of difference between the respective state and federal exclusion amounts, Maine would be the first state that we are aware of to reduce the state-level estate tax exclusion amount since the repeal of the federal State Death Tax Credit in 2001. Table A, attached to this testimony, lists the federal and Maine exclusion amounts for 2011 through 2025.

There are three Maine estate tax rates applicable to the Maine taxable estate exceeding the Maine exclusion amount (8%, 10%, and 12%). Currently, the federal unified credit against estate tax is $13,990,000.

For decedents dying on or after January 1, 2026, the bill reduces the Maine estate tax exclusion amount ("Maine exclusion amount") from $7,000,000, as adjusted for inflation, to $1,000,000 and creates an additional exclusion amount, up to $3,800,000, for estates that include family farms and aquaculture, fishing, and wood harvesting businesses. The additional exclusion applies to farmland and depreciable machinery and equipment used in commercial agricultural production, commercial aquacultural production, commercial fishing, or commercial wood harvesting that is inherited by a family member and remains in commercial use for 5 years following transfer. The additional exclusion amount is subject to recapture if the underlying property fails to meet eligibility requirements at any time during the five-year period.

Maine conforms to the special federal treatment of property used in farming or other trades or businesses. Internal Revenue Code, Section 2032A allows special valuation of qualified use property. To qualify for special federal treatment, the property must be used "primarily" in farming or other business activity for 5 of 8 years preceding the death of the decedent and, to avoid recapture, 10 years following the death of the decedent. Also, for federal purposes, at least 50% of a decedent's estate must consist of real/personal property used in farming or other trade or business.

The Administration notes that the bill significantly increases the complexity and the number of taxpayers subject to the Maine estate tax, increases the reporting requirements for taxpayers and tax preparers, and increases MRS staff processing and auditing activity. At the same time, the requirements for the increased exemption for estates that include family farms and aquaculture, fishing, and wood harvesting businesses are much more generous than the special federal treatment of property used in farming or other trades or businesses.

Due to the broader scope of this increased exemption, many more estates will qualify for the additional Maine estate tax exclusion for farmland or depreciable property and equipment than would qualify for the federal estate tax benefits. In addition, as the bill is written, qualifying estates may be eligible for both the special valuation treatment under the Internal Revenue Code, Section 2032A and the increased Maine exclusion amount with respect to the same property.

There are additional other technical comments on the bill that can be provided if the Committee decides to move forward with the legislation.

The estimated preliminary fiscal impact of the bill is not currently available.

The estimated preliminary administrative costs continue to be under consideration.

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.

Table A

Federal and Maine Estate Tax Exclusion Amounts (2011 – 2025)

	Federal Estate Tax Exclusion	Maine Estate Tax Exclusion
2025	$13,990,000	$7,000,000
2024	$13,610,000	$6,800,000
2023	$12,920,000	$6,410,000
2022	$12,060,000	$6,010,000
2021	$11,700,000	$5,870,000
2020	$11,580,000	$5,800,000
2019	$11,400,000	$5,700,000
2018	$11,180,000	$5,600,000
2017	$5,490,000	$5,490,000
2016	$5,450,000	$5,450,000
2015	$5,430,000	$2,000,000
2014	$5,340,000	$2,000,000
2013	$5,250,000	$2,000,000
2012	$5,120,000	$1,000,000
2011	$5,000,000	$1,000,000