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Testimony on behalf of Maine Equal Justice in support of LD 1876, An Act to Increase Use of State Tax Credits

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Good afternoon Senator Grohoski, Representative Cloutier, and Members of the Taxation Committee. My name is Ann Danforth and I use she/her pronouns. I'm a Senior Policy Advocate at Maine Equal Justice (MEJ), a nonprofit civil legal aid provider working to increase economic security, opportunity, and equity for people in Maine.

Maine Equal Justice has been active at the State House for over 25 years. Our work focuses on many of the issues that affect people's daily lives – access to adequate health care, housing, transportation and childcare; food and income security; and higher education and training. MEJ works in partnership with people living in poverty to organize and advocate together for equitable laws and policies. We also provide education and training throughout the state on programs and policies that directly impact individuals and families living with limited means.

I'm here today to testify in support of LD 1876.

Refundable state tax relief programs like the state Earned Income Tax Credit, the Property Tax Fairness Credit, the Sales Tax Credit, and Child and Dependent Exemption Credit, provide targeted and critical relief to Mainers with low income, helping to offset some of the regressive nature of our tax code, and putting money back into the pockets of people who need it the most.

While we applaud the legislature for the steps it has taken over the past few years to strengthen state tax credits, we know that far too many eligible recipients are missing out on these important credits.

Maine Equal Justice was part of a 2020 legislatively created working group to Study the Consolidation of Payments of Cost-of-living Tax Credits.¹ As part of that group's work, we received the following state tax credit participation rate estimates from Maine Revenue Services (MRS):

Property Tax Fairness Credit (PTFC)

¹ https://ldc.mainelegislature.org/Open/Rpts/hj2330_c24_2020.pdf

- **A rough estimate is that PTFC take-up is 60-70% among people who file a Maine income tax return, but drops to an overall take up rate of 45-55% when non-filers are also counted among the eligible.**
 - For homeowners in 2015, the ratio of PTFC claims to the estimated total eligible filers is about 66%; including non-filers drops this ratio to 46.4%.
 - **For renters in 2015, the ratio of PTFC claims to the estimated total eligible filers is about 42%; but when non-filers are included this ratio drops to 28%. (MRS notes the number of eligible renters may be overstated, as generally, anyone who receives a housing subsidy that requires the recipient to spend 30% of income on rent is ineligible for the PTFC.)**
 - Estimated PTFC Claims / # eligible is higher for the elderly: 82.7% vs 49.3% for filers, 44% vs 37% including non-filers (renters and homeowners).
 - Excluding non-filers, PTFC Claims / # eligible is highest for taxpayers with income under \$10,000 (59%), but this is not true when non-filers are included.

Sales Tax Fairness Credit (STFC)

- The participation rate percentage among people who filed an income tax return is somewhere in the high 90s based on a quick model estimate.
- The number of non-filer tax units have about a 72% participation rate (a rough estimate).

Earned Income Tax Credit (EITC)

- With respect to the federal EITC, Plueger (2009) estimates a 75.3% participation rate based on exact matches of IRS and CPS ASEC data.
- 77.9%^[1] of eligible Mainers claim the federal EITC. A majority of those (93%) who file the federal EITC also claim the state EITC (filing the federal EITC is a prerequisite to filing the state EITC). This means about 72.4% of eligible Mainers are claiming the state EITC.

The working group concluded that **“one of the biggest reasons for low uptake rates among people eligible for tax credits – particularly state tax credits – is people’s lack of awareness about their eligibility.** Some of the potential explanations for low awareness raised by working group members include the following:

- **Many of the “big box” tax preparation companies only screen people for federal tax credits, and do not screen people for state tax credits.** It’s possible that the tax preparation software used by these companies is inadequate to screen for state level tax credits. While there are VITA sites in Maine that assist low-income people with tax filing that do screen and assist people in applying for both federal and state tax credits, these sites are technically funded only to help people apply for federal credits.
- CASH Maine tax sites report working with tax filers each year who previously used on-line tax preparation services and/or brick and mortar tax services who did not file Maine tax credits for them. Others who are only eligible for the Maine PTFC and STFC report not applying for these in the past because if they had to pay to have their taxes prepared it would take their entire refund.

- *Because the PTFC, STFC, and EITC are refundable, people who aren't required to file income taxes, or "non-filers," are eligible for and could benefit from these tax credits. Many non-filers are not aware that they could benefit from filing for these credits, and are not in the habit of filing taxes.*
- *Some suspect that frequent change of address among renters accounts for lower PTFC uptake. In addition, some speculate that because the PTFC has "property tax" in its name, renters think they are ineligible for the credit. It is unlikely, however, that this fact alone accounts for the low uptake rates. When the program was called the Maine Residents Property Tax and Rent Refund "circuitbreaker" Program, the uptake rate was around 50% among Maine homeowners/renters eligible for the program.*

A report from Prosperity Now on regulating and holding large tax preparation firms accountable sheds more light on this issue and cites potential solutions, including requiring training and competency standards among tax preparers at larger tax preparation firms.²

LD 1867 would address the issues laid out above head on and help improve access to state-level tax credits by:

- Providing increased funding for the CA\$H coalition – the network of free tax preparers who are based in their communities and best equipped to support Mainers with low income in accessing state level tax credits;
- Creating a working group to look more deeply into access issues, including examining who is and isn't receiving these credits and how the taxpayer advocate can be better utilized; and
- Requiring an annual report from large tax preparation firms on the extent to which they are training employees on state level tax credits.

Thank you for your time and I'm happy to answer any questions you may have.

Ann Danforth

² https://www.prosperitynow.org/files/PDFs/09-2017_Paid_Tax_Preparer_Regulations_Brief.pdf