

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

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

LD 1899 – “*An Act to Eliminate the Taxation on Health Care Spending*”

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 1899, “*An Act to Eliminate the Taxation on Health Care Spending.*”

For tax years beginning on or after January 1, 2026, this bill proposes to provide an income tax subtraction modification for medical and dental expenses paid by the taxpayer, the taxpayer’s spouse, or dependents during the taxable year to the extent the expenses were not compensated by insurance or deducted when determining federal adjusted gross income.

Eligible medical and dental expenses that qualify for the income subtraction modification must be eligible for federal income tax deductions regardless of the threshold that otherwise limits the federal deduction to amounts paid greater than 7.5% of federal adjusted gross income.

Currently, for federal and Maine income tax purposes, a taxpayer who itemizes deductions may deduct the amount of medical and dental expenses paid during the tax year that exceed 7.5% of federal adjusted gross income pursuant to the Code, Section 213.

This proposal will benefit higher-income individuals more than lower-income individuals due to lower-income individuals having far less Maine income tax liability by which to take advantage of the deduction.

The Administration notes that, as currently written, the bill will allow the taxpayer, the taxpayer's spouse (if filing separately), and the taxpayer's dependent(s) to each claim an income subtraction modification for the same expenditures and for amounts claimed as itemized deductions.

To address these issues, the bill should be amended to: (1) clarify that the income subtraction modification is equal to the amount of expenses paid during the tax year by the taxpayer for the medical and dental care of the taxpayer, the taxpayer's spouse and dependent(s), and (2) limit the deduction to the extent the medical and dental expenses have not otherwise been used to reduce Maine taxable income.

Additionally, the bill should specify that eligible "medical and dental expenses" refer to those qualifying under Section 213 of the Code.

The preliminary estimated fiscal impact is a revenue loss in the range of \$200 million.

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 income tax return to accommodate the subtraction modification.

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.