TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *March 17th, 2026*

LD 714 – *"An Act to Prevent State Income Tax from Being Collected on Money Stolen from Victims of Scams"*

Senator Grohoski, Representative Sayre, and members of the Taxation Committee – good afternoon, my name is Dan Pittman, Associate Tax Policy Counsel in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Neither For Nor Against LD 714, "*An Act to Prevent State Income Tax from Being Collected on Money Stolen from Victims of Scams*."

This amendment strikes and replaces the bill, which is a concept draft, and changes the title. This amendment provides that a taxpayer who claims a loss federally deductible as an itemized deduction under Internal Revenue Code (IRC) Section 165(c)(2) for losses incurred in any transaction entered into for profit, though not connected with a trade or business, is allowed a subtraction modification for the same amount for state income tax for that same tax year.

The Tax Cuts and Jobs Act (TCJA) largely limited the ability of taxpayers to deduct casualty losses pursuant to IRC Section 165 to apply only to the extent it is attributable to a declared disaster, and this limitation was made permanent by Public Law 119-21, often referred to as the One Big Beautiful Bill Act (OB3). However, there is an exception for situations where the taxpayer has personal casualty gains, in which case the taxpayer is allowed offsetting losses, and the IRS has also issued limited relief clarifying that under certain circumstances, victims of scams may qualify for casualty deductions, as long as their participation in the scam was motivated by financial concerns (for more details, see the National Taxpayer Advocate Blog).

Maine was in conformity with the federal treatment under the TCJA and bills have been proposed to follow the federal treatment under the OB3. However, Maine applies a limit to and phases-out itemized deductions that could limit or eliminate a taxpayer's ability to benefit from the IRC 165 deduction.

The Administration would like to note that under LD 714, as drafted, not all victims of what could be considered common "scams" would qualify for the deduction. Personal scams such as "romance scams" or "false kidnapping schemes" would not qualify for the deduction under federal law (which serves as the basis for the proposed state subtraction modification). There are also a couple of potential technical concerns that may need to be addressed. See the Appendix for more details.

The amendment's fiscal impact estimate is under review. The amendment's administrative cost estimate is not available at this time.

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.

Appendix:

- Research is ongoing on whether any legislative changes are necessary.
- The bill may need a retroactive date if the intent is to have the bill apply to specific taxpayer situations considered by the Legislature.