

## Testimony on LD 258 An Act Making Unified Appropriations and Allocations from the General Fund and Other Funds for the Expenditures of State Government and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2023, June 30, 2024 and June 30, 2025

February 8, 2023

Good afternoon Senators Rotundo and Grohoski, Representatives Sachs and Perry, and members of the Appropriations and Financial Affairs and Taxation Committees. My name is Maura Pillsbury and I am a tax analyst at the Maine Center for Economic Policy. Maine has an opportunity with this year's budget to take huge steps forward to address child poverty and improve housing affordability; to position Maine well to meet its obligations to residents in the future; and to reform a tax break that is benefitting some of the wealthiest residents of our state.

### Refundable Child Tax Credit

One of the most significant policy successes during the pandemic was the dramatic reduction of child poverty through expansions of the refundable federal child tax credit. Despite the clearly documented success of this program, Congress failed to extend the program. Families have lost these benefits while prices on their basic needs have increased. But Maine can reform its own child tax credit to better serve the needs of low- and middle-income households with children.

First, by making the existing \$300 credit refundable, Maine can ensure that the poorest families aren't locked out of benefitting from this income boost. Making the credit refundable would impact about 89,000 Maine children<sup>i</sup>, giving their families greater financial stability to afford necessities and unexpected expenses. Currently these families are shut out from receiving the credit because they have no income tax liability.

Second, increasing the refundable credit amount for all families will further boost the impact of the state program in reducing childhood poverty and improving families' abilities to make ends meet. A recent Institute on Taxation and Economic Policy analysis showed that a \$600 refundable state tax credit would reduce child poverty in Maine by 25 percent.<sup>ii</sup> Increasing the credit would benefit 229,000 Maine children. This investment would impact the well-being and outcomes for Maine children.

### Positioning Maine for the Future

We know that often when tax reform proposals are introduced, like eliminating the income tax, typically the wealthy disproportionately benefit. Unlike expanding the child tax credit, proposals to cut taxes across the board are poorly targeted to help those that need it most.

Further, Maine does not really have a surplus if we aren't meeting the essential needs of all Mainers. Rather than cutting taxes, we urge the committees to make much needed investments to make sure all people, families, and communities have what they need and that no Mainer falls through the

cracks. Cutting taxes could compromise our capacity to uphold our commitments to Maine people and communities now and in the future, while failing to provide targeted supports to Mainers in need. If you do end up taking this path, we urge you to make sure you focus on those who are currently underserved by state programs, like CTC recipients

### **Limit Property Tax Freeze for Older Mainers – Budget Line Item Z368**

The governor's budget proposes fully funding the property tax freeze for older Mainers with \$15 million for the program in 2024 and \$31 million in 2025. This will grow to at least \$45 million and \$60 million in the next biennium, and continue to grow in future biennia, unless lawmakers intervene. There is no question that low-income seniors are struggling to afford the basics including housing and property taxes, but this tax freeze misses the mark at addressing this hardship and will draw heavily on state resources. This program will shower much of its benefits on economically secure seniors while having little benefit for seniors who are struggling to afford their property tax bills today. The state already has policies in place to help struggling seniors with this issue that are much better alternatives, provide a better benefit to low-income seniors, and cost considerably less to provide, including the Property Tax Fairness Credit, the Homestead Exemption, and the Property Tax Deferral Program.

We look forward to the legislature taking up the many bills put forward this session to reform this program. We hope the legislature will eliminate this program or reduce its price tag in future years by adding income and asset limits to the eligibility criteria. In the meantime, we urge the committee to fulfill the State's financial obligation to municipalities under the law as it is currently written so municipalities are not left with additional financial pressure. We believe there are much better things we could be doing to support older Mainers and municipalities than this program and encourage a fix as soon as possible.

### **Transfer Estate Tax revenue to the HOME fund**

The estate tax is forecast to raise \$23.7m in 2024 and \$23.2m in 2025. We believe these revenues should be redirected from the general fund to the Housing Opportunities for Maine (HOME) fund to support investments in affordable housing. This would essentially double the amount of funding available to Maine Housing to help Mainers access safe, affordable housing.

### **Part L – funding for MRS new hires**

We support the request for additional positions for the Bureau of Revenue Services. MRS needs additional resources to increase their capacity and ensure tax fairness.

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<sup>i</sup> ITEP analysis

<sup>ii</sup> <https://itep.sfo2.digitaloceanspaces.com/Child-Tax-Credit-Options-Maine-2022.pdf>