

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation

Hearing Date: *January 9th, 2024*

LD 1974 – *“An Act to Reauthorize Maine’s New Markets Tax Credit Program”*

Senator Grohoski, Representative Perry, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am here today at the request of the Administration to testify Neither for nor Against LD 1974, *“An Act to Reauthorize Maine’s New Markets Tax Credit Program.”*

This testimony is limited to the bill as it relates to taxation and Maine Revenue Services. The bill expands the Maine New Markets Tax Credit (“NMTC”) program by establishing the “program 2 tax credit authority.” Generally, program 2 tax credit authority allows the Finance Authority of Maine to allocate an additional \$250 million of qualified equity investments that are made on or after January 1, 2023, including \$30 million in impact qualified equity investments of which 50% must be invested in a diverse Maine fund.

The nearly exhausted existing NMTC program was controversial and not well understood when it was enacted in 2011. While some of the most problematic issues with the NMTC were addressed through FAME rulemaking, the credit remains complex and has not kept up with the changing needs of the State economy.

Last year, the Legislature enacted the Dirigo business incentives program. The Dirigo program is currently undergoing rulemaking and will take effect in tax

year 2025. The program is a key tax credit in the State's economic development toolbox. It is well targeted to the current economic needs of the State: encouraging workforce productivity and job opportunities by incentivizing worker training and capital investment.

The Administration notes that the bill limits Program 2 eligible entities to those more than 50% owned, or governed, by individuals who are racial or ethnic minorities or members of a federally recognized Indian nation, tribe, or band in the State. Linking a State tax benefit to a taxpayer's race or ethnicity may raise concerns under the U.S. and Maine Constitutions.

The Administration also notes that the time limitation in 36 M.R.S. § 5219-HH(1)(I)(1) and proposed 10 M.R.S. § 1100-Z(8)(A)(9) should be amended to reflect the accelerated investment date required in section 11 of the bill with respect to program 2 tax credit authority.

This bill will reduce state revenues by \$97.5 million cumulatively over a five-to-ten-year period beginning in fiscal year 2027.

The estimated administrative costs are nominal and can be absorbed under current budgetary allotments.

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. I would be happy to respond to any questions you may have now.