Maine Center for Economic Policy

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Testimony Neither for Nor Against LD 1891 An Act to Support Maine Businesses Through a Child Care Tax Credit and a Pass-through Entity Tax
1/25/24

Senator Grohoski, Representative Perry, and members of the Taxation Committee, my name is Maura Pillsbury and I am an analyst at the Maine Center for Economic Policy. I am submitting this testimony neither for nor against LD 1891.

Given the complexities of Part A and outstanding questions about who the primary beneficiaries of this change would be in the state and possible impacts on state tax revenues, MECEP is neither for nor against Part A at present.

When the Tax Cuts and Jobs Act (TJCA) was passed during the Trump administration, Congress created a $10,000 cap on the amount of state and local taxes individuals could deduct. Owners of pass-through entities are typically responsible for paying taxes on the entity's taxable income on their individual tax return. Part A creates a loophole allowing pass-through entities to file state taxes as an entity so individuals can avoid bumping up against the $10,000 limit and deduct the full amount of state and local taxes they paid on their federal tax return. Passthrough business owners benefiting from this change to their federal taxes will tend to be wealthier itemizers.

Part A allows beneficiaries to reduce federal tax payments and, potentially, increase the size of their refund by creating a mechanism that allows them to deduct state and local taxes on their federal return. As a result this impacts taxes paid at the federal level , but we are uncertain what the impact would be for state revenues. If there is a tax impact at the state level that creates a new loophole for state taxpayers, we would be opposed to this measure.

We are opposed to part B of this bill in its current form. We appreciate the intent of part B, which is to help with the child care issues facing our state. As we and the supporters of this bill know, child care is a critical component of our state's economic infrastructure. We also recognize how important it is for women's economic freedom, since the absence of child care often falls on the shoulders of women whose careers, earnings, and retirement savings suffer as a consequence. However, we do not believe this bill is the best way to use state resources to equitably improve workers' access to child care services.

Specifically, our analysis of the record on employer tax credits at the state and federal level finds that they are not an effective or targeted way of expanding access to child care. These credits in other states have fallen short on their promises and, at the federal level, have disproportionately benefited sophisticated corporate tax filers over small business. We

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expect this bill would in many cases benefit those employers who are already offering child care benefits. Furthermore, child care benefits should not be tied to a particular employer but should instead be a benefit available to all those who need help accessing child care to maximize opportunity and labor market dynamism.

As noted in our testimony last session on LD 1222, this bill does not include some identified best practices for state tax subsidies such as a sunset date so extending the credit would require a proactive discussion of its effectiveness, and goals and evaluation parameters needed for an OPEGA review. If the committee were inclined to support this bill, we would suggest limiting the definition of "providing child care services" to expenditures toward building out new programs which could grow the state's child care supply. Alternatively, the committee could reformulate the bill as a grant program for participating entities, which would have the benefit of building in evaluation and oversight and make it a true public-private partnership.

Recent years have taught us child care workers are truly essential. Without them, other workers are forced to leave work to care for young children, costing them earnings they need now and the savings to retire with dignity. This burden is felt by families in every corner of our state, but it particularly impacts rural areas and overwhelmingly falls on women to sacrifice their economic autonomy. Last session, lawmakers made critical investments to improve our child care system. The pillars of that progress included raising compensation for all child care workers; expanding subsidy eligibility to help more working families afford the cost of child care; and ensuring child care workers themselves are eligible for subsidy. Much work remains to build upon these pillars in the coming years to expand our child care supply, compensate all child care workers at levels commensurate with the value they provide to our state, and ensure all working parents and guardians can afford child care and stay in the labor force if they so choose.

While we value and appreciate the motivations of this bill's supporters, we do not think it is the best way of achieving these goals. If this committee seeks ways to support child care access through tax policy, one means of doing so would be to expand and make fully refundable the child and dependent care credit, which would allow all families, including currently excluded families with lower earnings, to access that support.