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Before the Joint Standing Committees on
Appropriations and Financial Affairs
and Taxation

"An Act to Make Supplemental Appropriations and Allocations from the General Fund and Other Funds for the Expenditures of State Government and to Change Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Year Ending June 30, 2025"

January 22, 2025

Good afternoon, Senator Rotundo, Representative Gattine, and members of the Joint Standing Committee on Appropriations and Financial Affairs; Senator Grohoski, Representative Cloutier and members of the Joint Standing Committee on Taxation. I am Kirsten Figueroa, the Commissioner of the Department of Administrative and Financial Services. I am here today to present the fiscal year 2025 supplemental budget bill.

Homestead Property Tax Exemption Reimbursement (0886)

Page **A-1** contains one initiative related to the **Homestead Property Tax Exemption Reimbursement** program, reducing funding in fiscal year 2025 by $14 million.

The purpose of the Homestead Property Tax Exemption Reimbursement program is to offset the effects on local property tax revenues arising from the municipal exemption of certain homestead property of qualified Maine residents. Permanent Maine residents who have owned a home for at least 12 months may reduce the value of their home for property tax purposes by $25,000 of just value. Reimbursement of the tax revenue lost by municipalities because of the exemptions is required pursuant to Title 36, section 685. The rate of reimbursement has increased from 50% for property tax years beginning before April 1, 2018 to the current level of 76% for property tax years beginning on or after April 1, 2023.

Total homestead property tax exemption reimbursements have been dropping, even as the reimbursement rate has been increasing, due to rapid increases in the real estate market reducing the value of the homestead exemption relative to the market value of residential properties. With the market slowing, anticipated stabilization of the reimbursement with gradual increases in future years is expected. A similar initiative appears in the biennial budget.

Homestead Example

*Imagine a town with only one property—a house with a homestead exemption. In 2020, the town does a revaluation and brings the value of the house up to market value—$1 million. Because they just did a revaluation, the town's ratio is 100%. The town always raises the same amount in taxes each year ($10,000) and so approves a mil rate of 10.26 to raise that money. The tax associated with the homestead exemption for 2020 is therefore $256 (homestead value * mil rate).*

Each year, however, the real estate market is increasing by 10%.

- *In 2021, the market value of the house increases by 10%. The town doesn't adjust any of their assessed values, so the house is still valued for assessment purposes at $1 million. However, because the market has increased, the town's ratio drops to 91% (assessed value divided by market value). The homestead exemption is required to be adjusted by the ratio, so the value of the homestead exemption drops to $22,727. The net assessed value of the single property therefore increases slightly, and the town drops their mil rate correspondingly in order to still raise the same $10,000 in tax. Because the homestead value and the mil rate both drop, the tax associated with the exemption drops as well.*

- *Same basic result in 2022: market value increases, ratio drops, homestead value drops, net assessed value increases, mil rate drops, tax associated with exemption drops.*

- *In 2023, the town decides their ratio has dropped too far and decides to do a revaluation. This brings the assessed value up to market value and the ratio up to 100%. It also brings the homestead back up to the full $25,000 in value. However, because the assessed values have been increased, the mil rate drops significantly in order to still raise the $10,000 in tax. Thus, while the homestead value increases, the mil rate drop more than offsets it, resulting in an even further reduction in the tax associated with the homestead exemption. The increased reimbursement percentage over the years is simply not enough to offset the effects of the increase in the real estate market.*

	2020	2021	2022	2023
Market Value	*$1,000,000*	*$1,100,000*	*$1,210,000*	*$1,331,000*
Certified Ratio	*100%*	*91%*	*83%*	*100%*
Assessed Value (before Homestead Reduction)	*$ 1,000,000*	*$ 1,000,000*	*$ 1,000,000*	*$ 1,331,000*
Homestead Value	*$25,000*	*$22,727*	*$20,661*	*$25,000*
Net Assessed Value	*$ 975,000*	*$ 977,273*	*$ 979,339*	*$ 1,306,000*
Mil Rate	*10.26*	*10.23*	*10.21*	*7.66*
Tax	*$10,000*	*$10,000*	*$10,000*	*$10,000*
Tax Associated with Homestead Exemption	*$ 256*	*$ 233*	*$ 211*	*$ 191*
Reimbursement Rate	*70%*	*70%*	*73%*	*76%*
State Reimbursement	*$ 179*	*$ 163*	*$ 154*	*$ 145*

Property Tax Stabilization (Z368)

On page **A-2** is the **Property Tax Stabilization** program. This initiative provides an allocation of $1 million in fiscal year 2025 to make the final reimbursements to municipalities under the program.

History. Public Law 2021, chapter 751 - An Act To Stabilize Property Taxes for Individuals 65 Years of Age or Older Who Own a Homestead for at Least 10 Years - allowed a permanent resident who was at least 65 years of age and owned a homestead in Maine for at least 10 years to stabilize the property tax billed to them at the amount they were billed for the homestead in the previous tax year, essentially freezing the property tax bill at the previous year's level until the home was sold. The law required the State to reimburse the municipalities for the difference between the stabilized amount and the amount that would otherwise be due. The Property Tax Stabilization Fund was created to reimburse municipalities for this difference.

The program was amended by Public Law 2023, chapter 412, Part S to limit the program to the property tax year beginning April 1, 2023 in favor of an expanded Property Tax Fairness Credit under Maine Revised Statutes, Title 36, section 5219-II, and Property Tax Deferral Program under Maine Revised Statutes, Title 36, chapter 908.

The Property Tax Fairness Credit (PTFC) provides targeted property tax relief or rent relief to those Maine residents most overburdened by the property tax. In tax year 2019, to qualify for the credit, a taxpayer's property tax bill needed to exceed 6 percent of their income. For taxpayers 65 years of age or older, the maximum credit allowed was $1,200. In addition, the benefit base, or the property taxes considered for determining eligibility under the program, was limited to $2,050 for single taxpayers, $2,650 for married filers or head of household filers with 1 dependent, and $3,300 for married filers with dependents or head of households with more than 1 dependent.

Over the 2020-2023 period the tax-to-income threshold was reduced to 4 percent and the maximum credit allowed for taxpayers 65 years of age or older increased to $1,500.

For tax years beginning on or after January 1, 2024, for taxpayers 65 years of age or older, the maximum benefit base was increased to $4,000, regardless of filing status and number of qualifying children and other dependents. The benefit base amount is adjusted annually for inflation. The maximum benefit amount was also increased from $1,500 to $2,000. All these changes since 2019 are estimated to increase the relief provided by the PTFC from $25.9 million in fiscal year 2019 to $115.0 million in fiscal year 2025 and roughly double the number of tax returns benefiting from the credit, from approximately 53,000 to over 100,000.

The State Property Tax Deferral Program was reestablished in 2021 for the property tax years beginning on or after April 1, 2022. For property tax years 2022 and 2023, an individual was eligible for the deferral program if they (1) were at least 65 or unable to work due to a permanent and total disability, (2) had income less than $40,000, and (3) had assets less than $50,000 ($75,000 if multiple owners). The State pays the property taxes on the qualifying homestead to the municipality each year and places a lien on the property. When the participant passes away, moves, or sells the property, the deferred tax plus interest comes due and must be repaid.

For applications filed after January 1, 2024, the household income and liquid asset limitations double to $80,000 and $100,000 ($150,000 if multiple owners), respectively. Additionally, a municipal lien is no longer an automatic disqualifier from the program if there are no more than two years of delinquent property taxes at the time of the application for deferral. If eligible, the delinquent property taxes are paid by the State and become part of the outstanding tax debt being deferred by the participant.

Although this program was amended to limit the program to the property tax year beginning April 1, 2023, it did exist for one tax year and final payments are due to municipalities. There is sufficient cash in the program to support this allocation.

Property Tax Stabilization Mandate (Z369)

Similarly, the initiative on page **A-2** contains an allocation of $46,000 in fiscal year 2025 to cover the remaining mandate costs, those additional expenditures incurred by municipalities as a result of new or expanded State programs, associated with this program.

We now move to the language document.

Part C, found on **pages 1** and **2** of the language document updates references to the United States Internal Revenue Code of 1986 contained in the Maine Revised Statutes, Title 36 to refer to the United States Internal Revenue Code of 1986, as amended through December 31, 2024, for tax years beginning on or after January 1, 2024 and for any prior tax year as specifically provided by the United States Internal Revenue Code of 1986, as amended.

This is commonly referred to as conformity with the Internal Revenue code and affects the State's income tax laws, which are substantially based on the Code.

The Maine Legislature must annually review amendments to the Code made by Congress and enacted into law since the last conformity date to determine whether Maine will conform to some or all of the federal changes that impact Maine's tax laws. Maine's conformity to the Code allows Maine income taxpayers to use their federal income tax return as a starting point for their Maine income tax return.

In addition to those amendments that must be reviewed annually, and where conformity requires an affirmative act of the Legislature, the Legislature has also enacted a limited number of provisions where the State automatically conforms to amendments without the need for additional legislation. This so called "rolling conformity" is the exception and limited by the Maine Constitution's prohibition that the Legislature not "surrender the power of taxation."

The current conformity date of December 31, 2023 was adopted by PL 2023, c. 619, An Act Updating References to the United States Internal Revenue Code of 1986 Contained in the Maine Revised Statutes."

Based on a review of federal tax legislation enacted since December 31, 2023 through January 15, 2025, there is only one federal tax law enacted during calendar year 2024 that we estimate will have a meaningful impact on Maine income tax receipts if we choose to conform.

On Dec. 12, 2024, President Biden signed the Federal Disaster Tax Relief Act of 2023 (H.R. 5863) into law. The legislation allows for special provisions for qualified disaster-related personal casualty losses, including the elimination of the requirement that casualty losses must exceed 10% of an individual's adjusted gross income ("AGI") before becoming deductible. Normally, only the portion of casualty losses exceeding 10% of AGI can qualify for deduction. With the new legislation, the AGI threshold is eliminated, and each separate casualty is deductible once it exceeds a more modest $500 floor. Individual taxpayers will be allowed to claim this type of casualty loss "above the line", meaning even if they don't itemize their deductions, they can still take the casualty loss in addition to the standard deduction. For this new law, a qualified disaster area is a location where a major disaster has been declared by the President during the period beginning January 1, 2020, and ending 60 days after the date of the law's enactment. The federal legislation allows taxpayers to file amended returns or seek refunds for losses that were previously non-deductible.

In some years, this conformity language is presented as a standalone bill. This year, the language is being presented in the supplemental budget due to the important timing of the federal legislation enacted in December. The federal legislation is retroactive and impacts the current tax filing season. The Internal Revenue Service has announced January 27, 2025 as the official start to the filing season of tax year 2024 returns. Taxpayers will also be able to file their Maine income tax returns on that date. The ability to notify taxpayers of the conformity to these provisions as soon as possible will ease administrative complexity for taxpayers, tax preparers, and Maine Revenue Services.

The Office of Tax Policy estimates conformity to this federal tax law change will reduce General Fund revenues by approximately $2.7 million in FY25, with much lower decreases in fiscal years 2026-29.

This concludes my testimony. Thank you.