

**TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *Tuesday, January 28, 2025*

LD 68 – “*An Act to Amend the State Tax Laws*”

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon, my name is Daniel D’Alessandro, Deputy Tax Policy Counsel in the Department of Administrative and Financial Services. I am testifying at the request of the Administration in Support of LD 68 “*An Act to Amend the State Tax Laws.*”

LD 68 is legislation submitted by the Department of Administrative and Financial Services. As you know, Maine Revenue Services prepares one or more bills each year that propose changes to various existing provisions of Maine law, primarily in Title 36. The Department has also submitted LR 154, “An Act to Make Technical Changes to Maine's Tax Laws.”

The difference between these bills is the nature of the recommendations. Whereas LR 154 contains technical changes with little or no fiscal impact, the “Act to Amend” makes various minor, but substantive, improvements and clarifications consistent with existing tax administration and other tax-related Executive Department functions.

You should have available to you a chart prepared by MRS that breaks down each provision of the bill and matches it with the corresponding paragraph from the bill’s summary section. This side-by-side chart provides a brief explanation of each provision of the bill.

I would draw your attention to Section C-2 of the bill which proposes to restrict the Maine income tax pension subtraction modification (also referred to as the pension income deduction) to pension withdrawals used for retirement income purposes.

When a federally taxable distribution is made from a retirement account before retirement age, an early distribution, it may be subject to a federal tax penalty in addition to normal taxation. As a starting point, Maine follows the federal taxation of the distribution but does not apply any additional penalty. In addition, Maine offers a pension deduction that may reduce or eliminate the income from taxation. Maine uses the federal penalty determination to determine whether to apply the State pension deduction. That is, the Maine pension income deduction applies to retirement account withdrawals that qualify as penalty-free early retirement distributions at the federal level.

However, the federal penalty relief provision was recently expanded to include retirement account withdrawals that are for non-retirement income purposes. A taxpayer may now receive penalty-free early retirement withdrawals related to certain circumstances such as pension-linked emergency savings accounts, penalty-free emergency withdrawals, penalty-free retirement plan withdrawals for domestic abuse victims, penalty-free retirement plan withdrawals for individuals with terminal illness, and penalty-free retirement plan withdrawals in connection with qualified disasters.

Although policy reasons could be argued for allowing the pension deduction to include pension distributions for specific legislatively identified non-retirement purposes, the change in the bill before you aligns the pension income deduction with its historic purpose of providing a deduction for retirement income but not for withdrawals related to non-retirement income purposes. In doing so, it also aligns

with the federal tax treatment of these distributions. Additionally, this change brings consistency with the current broad exclusion of early lump-sum distributions from 457(b) retirement plans from the pension income deduction.

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.

Presentation Chart for "131st 2nd - Act to Amend - Legislative Language"

<i>LD 68</i>	<i>Summary</i>
Be it enacted by the People of the State of Maine as follows:	
Sec. A-1. 33 MRSA §203, first ¶	Expands the exception to the requirement that liens are notarized that applies to liens filed by the Department of Administrative and Financial Services, Maine Revenue Services to include those filed pursuant to the Maine Revised Statutes, Title 36, Part 9, thereby including liens filed pursuant to the property tax deferral program.
Sec. A-2. 36 MRSA §693, sub-§1	Removes the automatic extension for business equipment tax exemption applications and replaces it with an extension for good cause of up to 3 months, changes the filing deadline to May 1st and removes the requirement for Maine Revenue Services to provide paper copies of the application.
Sec. B-1. 36 MRSA §1760, sub-§25	Limits the sales tax exemption for watercraft or materials used in watercraft sold to or used by a person that is not a resident of this State to exclude the lease or rental of watercraft.
Sec. B-2. 36 MRSA §1760, sub-§113, ¶B	Clarifies that, for the purposes of the sales tax exemption for sales sourced to tribal land, the sale of a motor vehicle to a tribal member or a tribal entity is sourced to tribal land if the vehicle is intended to be driven or transported to tribal land immediately upon receipt of the vehicle.
Sec. B-3. 36 MRSA §1760, sub-§114, ¶B	
Sec. B-4. 36 MRSA §1764	Clarifies that the tax levy on casual sales includes casual rentals and applies the existing 15-day safe harbor for the casual rental of living quarters to those rentals
Sec. B-5. Application	This Part applies to sales made on or after January 1, 2026.
Sec. C-1. 5 MRSA §13080-Q, sub-§2, ¶C	Updates the exclusion from the calculation of payments to the Loring Job Increment Financing Fund to also exclude state income withholding taxes that are based on the gross wages used to calculate the Maine Employment Tax Increment Financing Program benefit.
Sec. C-2. 36 MRSA §5122, sub-§2, ¶M-2	Specifies that early retirement distributions from an employee retirement plan that are reported as normal distributions are not eligible for the pension income deduction unless part of a series of substantially equal periodic payments made for the

Presentation Chart for "131st 2nd - Act to Amend - Legislative Language"

	life of the primary recipient or the joint lives of the primary recipient and that recipient's designated beneficiary.
Sec. C-3. 36 MRSA §5195, sub-§20	Clarifies that "reviewed year," in the laws governing income taxation of partnerships, includes the taxable year of a partnership that files an administrative adjustment request from which federal adjustments arise.
Sec. C-4. 36 MRSA §5196, sub-§3, ¶B	Specifies that the original due date for calculating interest and penalties of any partnership income tax as a result of a federal adjustment from a partnership audit or administrative adjustment request is the 15th day of the 3rd month following the end of the taxable year of a partnership that was subject to the partnership-level audit or administrative adjustment request.
Sec. C-5. 36 MRSA §6753, sub-§4, ¶A	Corrects a cross-reference in the laws governing employment tax increment financing to reference a qualified Pine Tree Development Zone business