TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *March 12, 2025*

LD *778* – "*An Act to Establish a State Tax Amnesty Program to Increase Revenue Collections*"

Senator Grohoski, Representative Cloutier, 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 testifying at the request of the Administration Against LD *778*, "*An Act to Establish a State Tax Amnesty Program to Increase Revenue Collections.*"

Tax amnesty programs allow delinquent taxpayers with outstanding tax payments to come forward and pay their taxes without, or with reduced, interest liabilities or penalties. Maine has previously had tax amnesty programs in 1991, 2003, 2006 (Use Tax Initiative), 2009, 2010 (Tax Receivable Reduction Initiative), and 2012 (Special Use Tax). Tax amnesty programs are used by other states as well.

Tax amnesty programs can result in short-term revenue gains but have a harmful effect on tax administration and long-term revenue. Some portion of the revenue gained from tax amnesty programs would likely have been collected through ordinary State tax enforcement systems, including interest and penalties. Historically, tax amnesty programs have only been used during dire financial conditions such as a recession induced budgetary crisis. Given the State's stable economy, well-funded Budget Stabilization Fund, and other cash reserves a tax amnesty is not appropriate at this time.

Tax amnesty programs that include reduced interest payments, such as this one, can lead the public to perceive the tax system as unfair because they provide more favorable treatment to delinquent taxpayers than those who pay timely. Additionally, recurring amnesty programs can cause additional tax administration issues – rather than encouraging renewed compliance, some taxpayers might not pay their tax bills and just wait for the next amnesty period. Finally, frequent use of tax amnesties tends to result in progressively reduced revenue collections from the tax amnesties.

Given the potential drawbacks of amnesty programs and the State's ability to meet current obligations, it is the Administration's view that an amnesty program is not warranted.

It is important to note, Maine Revenue Services already has a Voluntary Disclosure Program where taxpayers, who have not been previously contacted by MRS concerning their tax status, any tax liability, or any tax audit, may voluntarily report unfiled or underreported Maine tax obligations, without having to pay penalties.

Turning to more technical concerns, the scope of the amnesty program should be considered.

- The inclusion of current year tax returns in the amnesty program may create an incentive for taxpayers who would otherwise file and pay their taxes to delay and utilize the amnesty program.
- A requirement to file any missing tax returns prior to participating in the amnesty program should be considered.

- The program would allow taxpayers who only owe penalties to pay nothing and zero out their remaining balances; the value of these affected accounts is over $2 million.
- The tax types covered by the amnesty program should be specified.

The estimated revenue impact is not currently available.

Estimated administrative costs of the bill are $1,276,234 in fiscal year 2026 and $301,742 in fiscal year 2027, as outlined below. One-time computer programming costs of $354,080 will be required to establish the mechanisms for identifying and tracking liabilities that fit within the parameters of the amnesty program and for tracking receivables and collections resulting from the amnesty program. Consistent with previous MRS amnesty programs, taxpayer outreach and marketing of the program during fiscal year 2026 will be required, estimated to cost $150,000. One-time personnel costs of $545,000 in fiscal year 2026 will be needed to cover State employee overtime and additional contract staffing to handle the increased call volume and processing activities.

As noted earlier in this testimony, taxpayer compliance may decrease after an amnesty program. To combat this trend, MRS would need to supplement its non-filer program to strengthen non-filer compliance efforts, with a concentration on businesses that collect trust fund taxes from customers but fail to remit the taxes to the State. This would be accomplished by adding a Tax Section Manager and Tax Examiner to that unit. The estimated cost of these two new positions is $277,154 in fiscal year 2026 and $301,742 in fiscal year 2027.

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.