TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *March 19. 2025*

LD *570 – "An Act to Provide an Additional Maine Resident Homestead Property Tax Exemption Based on Income*"

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good morning, 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 *570*, *"An Act to Provide an Additional Maine Resident Homestead Property Tax Exemption Based on Income.*"

Under current law taxpayers who own their home, are permanent residents of Maine, and meet certain other criteria are eligible to receive the Homestead Property Tax Exemption, equal to $25,000 of the just value of their home. LD 570 would provide an additional homestead property tax exemption of $75,000 – thereby increasing the total exemption amount to $100,000 – beginning with property tax years beginning on or after April 1, 2026, with eligibility being based on federal adjusted gross income of the owner. While LD 570 would provide property tax relief, it does so in a burdensome and inefficient manner. The existing Property Tax Fairness Credit, by contrast, is a relatively straightforward property tax relief program that provides more targeted property tax relief to low- and middle-income households overburdened by the local property tax.

The are numerous complicating aspects in the approach taken by LD 570. First, the bill does not specify how the income eligibility for the additional homestead exemption will be determined and validated, or how subsequent changes in reported federal adjusted gross income should be treated. If the intention is to have MRS verify income eligibility, an exception to the taxpayer confidentiality provisions in 36 M.R.S. § 191 may be required. In addition, the timing set forth in the bill for determining the income eligibility for the exemption will not work in many cases, because federal adjusted gross income for the year prior to the property tax year for which exemption is requested will not be known by the April 1 application deadline.

Second, as currently written, the bill will require eligibility for the homestead exemption to be determined or adjusted annually. This would place a significant administrative burden on municipal assessors, who would be required to verify the applicable filing status and income for the owner(s) of each homestead each year. Absent changes in status, taxpayers currently must only file, and assessors must only review, a homestead application in the initial year of application.

Furthermore, this bill creates a tax cliff, where taxpayers filing as individuals who earned $99,999 during the prior income tax year are eligible for a $100,000 property tax exemption, while taxpayers filing as individuals who earned $100,000 are eligible for a $25,000 property tax exemption. The bill will require many individuals not otherwise required to file a federal income tax return to complete a *pro forma* return to determine federal adjusted gross income. Taxpayers will be required to disclose sensitive financial or tax information and likely to do so in a manner that would thereafter need to be protected by the municipality against unauthorized disclosure. This would add an additional administrative burden on the municipalities.

Regarding the fiscal impacts of the bill, as it relates to income tax, the estimated administrative costs cannot be determined without further clarification. As the bill relates to property tax, the bill will result in an increase in programming costs and likely the need for an additional position as the homestead reimbursement audits will become more complicated and take longer to perform. Estimated increased personnel costs are approximately $130,637 annually.

The bill is estimated to reduce property taxes by around $265 million, resulting in an increase in state homestead reimbursement to municipalities of $201 million. It also reduces the Property Tax Fairness Credit by around $28 million, for a net negative impact on state General Fund balances of around -$173 million per year once the full annual impact is realized.

In conclusion, the Administration opposes this bill because it creates an unduly complex administrative burden on taxpayers, municipalities, and Maine Revenue Services. The existing Property Tax Fairness Credit would be a better mechanism to provide additional property tax relief to low- and middle-income households overburdened by the local property tax.

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.