

**TESTIMONY OF
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *April 8, 2025*

LD 1294 – “*An Act to Expand the Dependent Exemption Tax Credit*”

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 Neither For Nor Against LD 1294, “*An Act to Expand the Dependent Exemption Tax Credit.*”

For tax years beginning on or after January 1, 2025, the bill proposes to double the dependent exemption tax credit to \$600 for each qualifying dependent who has not attained 6 years of age before the close of the taxable year. The bill also proposes to accelerate the phase-out of the credit by reducing the credit by \$20 for each \$500 by which the taxpayer’s Maine adjusted gross income exceeds \$100,000 if filing single or married separate, \$125,000 if filing head of household, and \$150,000 if filing married joint or as a surviving spouse.

Currently, the dependent exemption tax credit is equal to \$300 for each qualifying child and dependent of the taxpayer for whom the federal child tax credit was claimed for the same taxable year. The credit is subject to a phaseout equal to \$7.50 for each \$1,000 by which the taxpayer’s Maine adjusted gross income exceeds \$400,000 for married taxpayers filing jointly and \$200,000 for all other taxpayers. The credit for part-year residents and nonresidents is prorated based on the ratio of income taxable to Maine.

For tax years beginning on or after January 1, 2024, the credit is refundable for Maine residents and part-year residents, and the credit is adjusted annually for inflation.

The Maine dependent exemption tax credit was created to replace the personal exemption for dependents after the federal Tax Cuts and Jobs Act suspended the federal personal exemption deduction for tax years 2018 through 2025 and increased the federal child tax credit. It is unclear whether the federal changes will be allowed to revert, be extended, or be modified in some way. Due to this uncertainty, the Department recommends that the changes proposed by this bill be delayed until tax years beginning January 1, 2026 – thereby giving the State the time and ability to react to any federal changes to the federal credits and exemptions on which the state credit is based.

This bill adds another phase-out of a tax benefit that will increase the effective marginal tax rate on upper-middle income households by 4 percentage points. Also, the lower phase-out income thresholds mean that a joint filer with two children over the age of 5 and Maine adjusted gross income of \$175,000 will have a \$610 tax increase. These and similar taxpayers will lose a longstanding tax benefit based on the number of dependents they support.

The Administration also notes the following technical concerns:

- Section 2 of the bill should be amended to clarify that the credit is equal to \$300 for each dependent who is 6 years of age or older “at any time during the taxable year.”
- The bill does not extend the increase in the dependent exemption tax credit to part-year resident and nonresident taxpayers filing a Maine return. This may present constitutional issues.

- The bill should be amended to reflect that for tax years beginning in 2025, the credit may be claimed “for each qualifying child and dependent of the taxpayer for whom the taxpayer was eligible to claim the federal child tax credit pursuant to the Code, Section 24 for the same taxable year.” As previously noted, the federal personal exemption is suspended for tax years beginning after 2017 and before 2026.
- The income thresholds applicable to the phase-out of the credit in Section 4 of the bill will result in a so-called “marriage penalty” for married taxpayers filing joint returns because this amount is less than 200% of the amount applicable to single taxpayers.
- Taxpayers are not currently required to report the age(s) or birthdate(s) of their dependent(s) on their Maine individual income tax return. This bill will require affected taxpayers to provide a copy of their dependent’s birth certificate upon request to demonstrate eligibility for the additional amount of credit for children under the age of 6.

The preliminary estimated fiscal impact of this bill is nearly revenue neutral, with an initial projection indicating a revenue loss of -\$200,000.

The preliminary estimated administrative costs are under review. One-time computer programming costs may be required to accommodate the changes to the credit.

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.