TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *January 21st, 2026*

LD 2078 – *"An Act to Establish the Electricity Cost Fairness Refundable Tax Credit"*

Senator Grohoski, Representative Sayre, 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 2078, *"An Act to Establish the Electricity Cost Fairness Refundable Tax Credit."*

While laudable in intent, this bill does not solve the underlying issue of high energy costs, and instead further complicates the Maine income tax by creating another costly and complex refundable tax credit. A complicated tax code burdens both taxpayers and the State.

For tax years beginning on or after January 1, 2026, the bill proposes to establish the Electricity Cost Fairness Credit, a refundable credit for Maine residents and part-year residents. The base credit amount ranges from $335 to $600, depending on the taxpayer's filing status and number of dependents claimed for purposes of the federal child tax credit. For part-year residents, the credit is prorated based on Maine-source income.

The credit is phased out for taxpayers whose income exceeds $20,000 for taxpayers filing single, $30,000 for taxpayers filing as heads of household, and $40,000 for married taxpayers filing jointly. The credit is not available to married taxpayers filing separate returns, individuals who are "safe harbor" residents treated as nonresident individuals because they reside outside Maine for significant periods of time, and individuals that may be claimed as a dependent on another person's income tax return. The credit's structure is comparable to the Sales Tax Fairness Credit ("STFC") and is adjusted for inflation annually beginning in 2027.

For tax year 2025, the refundable STFC, as adjusted for inflation, is a maximum credit up to $280, depending on the number of qualifying children and dependents on the Maine income tax return. The income phaseout begins at $25,450 for single filers, $38,200 for heads of households, and $50,950 for married filing jointly or qualifying widow(er). Aside from the technical and legal concerns listed in the Appendix, the refundable tax credit this bill introduces only differs from the STFC by the base credit amount and the phaseout range.

As such, a simpler approach for the Committee to consider is increasing the existing STFC instead of creating an additional tax credit. This approach would also avoid the issue of phasing out multiple credits over similar income tax ranges – a practice that can create surprisingly high effective marginal tax rates for, in this case, lower income taxpayers.

The Department would also suggest that non-tax solutions may better address the issue of high electricity costs. Electricity is a regulated market where other agencies not only have a higher degree of subject matter expertise than Maine Revenue Services, but also have existing authority in the field. Directly addressing electricity costs would be simpler, quicker, and more effective than involving a new agency and requiring taxpayers to wait until tax filing season to claim a new credit on their tax returns.

The preliminary fiscal impact estimate projects an annual revenue loss of $45 million. The bill's estimated administrative costs are under review. The bill will result in one-time computer programming and related system testing costs to add one additional line to the individual income tax return and four new lines to Schedule PTFC/STFC to accommodate the credit. Due to lack of available space on the current Schedule PTFC/STFC, additional printing and associated mailing costs will be incurred to add another page to the Schedule.

Appendix:

- The credit first applies to tax years beginning on or after January 1, 2026; however, the first inflation adjustments are required to be made in 2027. Therefore, the base credit and the income phaseout thresholds will not be adjusted until tax years beginning on or after January 1, 2028.
- Unlike the STFC, the federal deduction for alimony paid is not considered income for purposes of determining the credit.
- Restricting the credit to Maine residents may raise concerns under the United States Constitution. Further research is required.
- Adding another refundable credit may increase the risk of fraudulent claims.