

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

Before the Joint Standing Committee on Education and Cultural Affairs
Hearing Date: *May 8, 2023*

LD 1741 – “An Act to Promote Educational Opportunity Through the Educational Choice Tax Credit Program, Eliminating Certain Restrictions on Charter Schools and Virtual Public Charter Schools, Allowing More Entities to Authorize Charter Schools and Clarifying Educational Policy on Immunization Requirements”

Senator Rafferty, Representative Brennan, and members of the Education and Cultural Affairs Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am providing testimony at the request of the Administration Against LD 1741, *“An Act to Promote Educational Opportunity Through the Educational Choice Tax Credit Program, Eliminating Certain Restrictions on Charter Schools and Virtual Public Charter Schools, Allowing More Entities to Authorize Charter Schools and Clarifying Educational Policy on Immunization Requirements.”*

This testimony is limited to the bill as it relates to taxation and Maine Revenue Services (“MRS”). For tax years beginning on or after January 1, 2023, the bill creates the nonrefundable educational tax credit equal to amounts donated to certain scholarship organizations participating in the educational choice tax credit program under 20-A M.R.S., chapter 220. Unused credit amounts may be carried over for up to three tax years. Beginning in the 6th year of the program, the credit is limited to 90% of the tax liability of the taxpayer and further reduced by an additional 10 percentage points each year until the credit reaches 50% of the

taxpayer's tax liability in the 10th year of the program. Taxpayers claiming the credit must provide a receipt for the scholarship donation. Additionally, the bill allows taxpayers to divert state income tax withheld to a scholarship organization up to the maximum allowable credit, including carry-over credits.

Currently, for federal and Maine income tax purposes, taxpayers who utilize itemized deductions may deduct donations made to qualified scholarship organizations, thereby reducing taxable income by the amount of the donations.

This is a very complex credit both for the taxpayer and MRS and the Administration notes that the full effect of the bill cannot be determined until major technical issues are resolved, including the following technical concerns:

- The bill should be amended to clarify how the percentage limitation on the credit is determined and applied.
- The bill should clarify the impact of an organization being barred from participation.
- The bill should be amended to clarify the method taxpayers may use to “divert a prorated amount of state income tax withheld to a scholarship organization,” establish limitations such that the taxpayer's tax bill is not increased and include necessary reporting and compliance provisions. It may not be possible to implement this provision in 2023.

The estimated revenue impact of the bill is not available at this time.

Administrative costs cannot be determined as the bill is currently written.

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.