Maine Working Group to Study Consolidation of Payment of Cost-of-living Tax Credits

Report & Recommendations

March 2020

Contents

EXECUTIVE SUMMARY

The 129th Maine Legislature established the Working Group to Study Consolidation of Payment of Cost-of-living Tax Credits "to make recommendations to the Legislature regarding the most efficient and effective means to consolidate application and payment of cost-of-living tax credits, including recommendations for making such payments available on a periodic advance basis throughout the year."

The Working Group is charged with preparing a report based on its findings and the Associate Commissioner for Tax Policy with submitting the results of the study, including any suggested legislation necessary to implement the recommendations of the working group no later than March 1, 2020 to the Joint Standing Committee on Taxation and the Joint Standing Committee on Appropriations and Financial Affairs. Each committee may submit a bill to the Second Regular Session of the 129th Legislature related to the report.

In developing its recommendations, the working group was instructed to examine duties A through E below, and has made the following findings and recommendations, which are described in more detail throughout this report.

FINDINGS

Definition of cost of living tax credits: After examining the structure of state credits we believe the definition of "cost of living" tax credits as it related to the recommendations of this Working Group should be limited to the state earned income credit, the sales tax fairness credit, and the property tax fairness credit as these credits have a relatively large base of eligible filers and the benefits are concentrated on low to moderate income households.

Consolidated credit size: In the upcoming tax year 2020 the maximum total refundable credit amount is $1,774, however the chances of one taxpayer receiving the maximum of each of these credits is low.

Take up rates for state tax credits:

Credit	Participation Rate	
	People who file Maine income tax returns	Including non-filers[1]
Sales tax fairness	High 90s%	72%
Property tax fairness[2]	60-70%	45-55%
• Homeowners	66%	46%
• Renters[3]	42%	28%

[1] It is important to note that estimating credit eligibility for people who do not file income tax returns is subject to increased levels of error because income tax returns are the most reliable way to determine credit eligibility. Other methods involve estimates from publicly available data sources (including United States census surveys).
[2] Tax year 2015 estimates.
[3] MRS reported data concerns on rents paid by families that may lead to an overestimate of renter eligibility and thus underestimating the participation rate of renters.

Earned income[4]	93% of federal EITC claimants[5]
Child care expenses	Not estimated.
Adult dependent care expenses	Not estimated.

Efficacy of tax credit awareness programs: A California study suggests that while awareness is critical for a filer to enter the process, awareness alone does not improve take up rates. The report suggests that increasing the capacity, hours, and number of free preparation sites could help remove barriers and suggests exploring innovative administrative changes such as testing ways to prefill tax information for tax filers so that they only have to confirm information on prefilled forms to file their taxes.

Mission of MRS: Presently, the mission of Maine Revenue Services is to fairly and efficiently administer the tax laws of the State of Maine, while maintaining the highest degree of integrity and professionalism. If the Maine Legislature intends for MRS to take on a larger role in the area of administrating benefit programs, it needs to consider the change in mission of the tax bureau and create tax credit programs that can be effectively administered by MRS without undue burden on the intended beneficiaries.

Information sharing between MRS and DHHS: State and federal laws inform the current ways in which MRS and DHHS can share client and taxpayer information with one another.

Demand for Advanced Payments: There is limited information to estimate the demand for advanced periodic payments in Maine.

Feasibility of advance periodic payments: Maine Revenue Services' existing system for processing refunds is not currently equipped to keep active cases that disburse refunds throughout the year. This would require a reworking of the system's technology to build in these capabilities and likely come at a cost to the state to set up the technological infrastructure.

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[4] Nonparticipation in the Maine EITC can be divided into two categories: 1) Taxpayers who are eligible for but do not claim the federal EITC; and 2) Taxpayers who claim the federal EITC but not the Maine EITC.

With respect to the federal EITC, Plueger (2009) estimates a 75.3% participation rate based on exact matches of IRS and CPS ASEC data. Highlights of these results, with table references, include:

- For eligible non-claimants, 64.8% did not file a tax return (Table 8).
- Participation rates increase with the number of qualifying children: The rates are 55.6% for childless adults, 73.6% for families with one child, and 85.9% for families with two or more qualifying children. (Table 9)
- Participation rates are generally increasing with the credit amount (Table 11). For example, the participation rate for EITC amounts under $500 is 56% and for EITC amounts greater than $2,000 is 86%.

Plueger, Dean. 2009. "Earned Income Tax Credit Participation Rate for Tax Year 2005." Internal Revenue Service Research Bulletin. http://www.irs.gov/pub/irs-soi/09resconeitcpart.pdf.

[5] Tax Year 2016 estimate.

Method of periodic payment dispersal: Direct deposit is the best way to administer periodic payments at a low cost and the state could require direct deposit for participants in periodic payments if it wished to limit costs of disbursing payments.

Periodic payment schedule of advanced payments: Periodic payment schedules could be established on the weekly or bi-weekly schedule to simulate the frequency of paychecks. Under this schedule, the payments would be small, and administrative costs high. Monthly payments would offer payments on a schedule that most families owe bills. Quarterly payments have the benefit of being dispersed throughout the year, while also retaining the value of being larger payments that could be used to help with a car repair or other larger expenses. Quarterly payments have the lowest administrative costs.

Periodic payment interaction with safety net programs: The working group examined how turning state tax credit payments into periodic payments would impact eligibility for means tested programs, including TANF, Food Supplement benefits, Medicaid, the Child Care Subsidy Program, and Section 8 Housing. Federal law excludes federal EITC refunds from all means-tested programs as income in the month received and as assets for 12 months. But, federal law says nothing generally about state tax credits, including state EITC or others. Currently, federal and state refunds for low-income tax credits are issued in one-time lump sums. Most programs do not consider one-time lump sum payments as income, but with a change to periodic payments, state tax credits would likely begin to count as income in the month received for the purposes of determining eligibility for some means-tested programs subject to federal rules.

RECOMMENDATIONS

Duty A. *Review the current method of applying for cost-of-living tax credits to determine how applications for those credits may be consolidated into a single, simplified application;*

- **The working group does not have a recommendation. The large share of filers choosing electronic filing options leaves us to believe changes to current tax forms are unlikely to have a large impact on ease of filing for the vast majority of Maine tax filers. The working group does, however, encourage MRS to explore ways to simplify online forms and processes, and simplify and consolidate current tax forms to the extent possible.**

Duty B. *Determine the most efficient method for making a single consolidated payment to eligible individuals for all cost-of-living tax credits for which these individuals are eligible;*

- **We recommend that only three credits be considered cost of living credits for the purpose of providing consolidated advanced periodic payments. Those credits are the property tax fairness credit, the sales tax fairness credit, and the earned income tax credit which are widely used credits that target low income households. As we do not recommend moving forward with advance payments at this time, we do not recommend action to begin collectively administering these three credits through an advanced consolidated payment.**

  As discussed in the findings section of the report, the charge of this group was to consider the feasibility of consolidating advance payments of several tax credit programs. Maine

refunds for income tax credits are currently administered as a single payment after a return is filed.

Duty C. *For making consolidated payments, review possible periodic schedules that are administratively feasible and best meet the needs of eligible individuals;*

- **The working group has no recommendations. While we find that quarterly payments through direct deposit are most administratively feasible, we do not recommend moving forward with administering the payment due to interactions with eligibility for other low income programs.**

Duty D. *Determine methods to facilitate claims for cost-of-living tax credits, including any consolidated payments recommended by the working group, for persons applying for assistance from the Maine Department of Health and Human Services through its automated client eligibility system;*

Given the low uptake rates for state cost of living tax credits, particularly among renters and very low income households, coupled with the unique position DHHS is in to identify and assist tens of thousands potentially eligible claimants, the working group makes the following recommendations:

- **As outlined in the resolve that accompanies our recommendations (Appendix 2), we suggest that Maine Revenue Services collaborate with the Maine Department of Health and Human Services to identify initiatives that will maximize access to state low-income tax credits. We suggest DHHS and MRS work in coordination with stakeholders to examine and report back to the Joint Standing Committee on Taxation on the following:**

  - **Consider other mechanisms, including outreach and alternative filing mechanisms that provide opportunity to significantly increase participation rates;**
  - **Evaluate the extent of increased uptake in the Property Tax Fairness Credit/Sales Tax Fairness Credit that can be reasonably attributed to the Department's mailing of letters to Department clients notifying them of their potential eligibility for the credits and referring them to filing assistance.**
  - **Examine practices to ensure the confidentiality of both tax filers and Department program participants;**
  - **Consider the capacity of the agency's respective computer systems to work together in a manner that most effectively facilitates access to low income state tax credits for recipients of services provided through the Department's Automated Client Eligibility System or its successor. For example, by providing the opportunity for applicants applying for assistance from DHHS to use that same portal to apply for low income state tax credits, utilizing DHHS pre-verified data, as appropriate, and instructing the applicant to finalize the application for submission to MRS.**
  - **Identify any costs, including but not limited to personnel costs and those associated with upgrading technology, deemed necessary to substantially improve access to low income tax credits.**

The working group recognizes that DHHS and MRS are working together to send a letter to DHHS clients potentially eligible for the PTFC, but we are concerned that a referral alone is not enough to move the needle on the alarmingly low PTFC uptake rates, particularly among non-filing renters. Through this resolve, we encourage the Department and MRS to assess the impact this mailing has on uptake rates and use that information to inform their future plans.

In addition, as DHHS and MRS are both redesigning their respective computer systems, the two state agencies are in an ideal position to come up with a plan outlining how the two systems will work together to facilitate access to low-income state tax credits in a way that ensures the confidentiality of both tax filers and Department program participants. While we recognize that the technology and data sharing agreements are not currently in place to integrate low-income tax credit applications into DHHS' online benefits system, we encourage DHHS and MRS to come up with a plan for how this could be achieved in the future. Because we believe this process can happen electronically, it would not create an additional burden for DHHS eligibility specialists, nor do we intend that to be the result.

Relatedly, as the Department creates new tools, such as the online benefits cliff calculator – which will include programs that serve low-income families, such as the federal EITC – the working group encourages the Department to also include the state EITC, the PTFC/STFC, and the Child and Dependent Care Tax Credit.

- **As outlined in suggested legislation accompanying this report (Appendix 3), the working group suggests requiring any administrator of the ASPIRE program to notify clients about the existence and benefit of *all* low-income tax credits – including *state* tax credits – and refer people to resources that could assist them in applying for these benefits.**

- **Also proposed in accompanying legislation (Appendix 4), the working group recommends an appropriation in the amount of $125,000 in State Fiscal Year 2021 to ensure continuation of services provided by CA$H Maine to assist low-income Mainers with tax preparation, including access to federal and state cost-of-living tax credits. CA$H Maine provides free tax preparation for low income Mainers to file their state and federal tax returns, but their funding from the IRS is limited to federal filing goals. Nonetheless, these sites still assist Mainers with filing the state EITC, sales tax fairness credit, and property tax fairness credit for those who do not need to file federal returns. For the past 6 years, CA$H Maine has supported their state tax credit work along with the coordination of the 10 CA$H Maine coalitions, including providing outreach and financial education, with funding from the John T. Gorman Foundation. This funding will end December 31, 2020 and will reduce their ability to continue this important work.**

State funding would replace funds that CA$H Maine is losing to enable them to continue to provide the same amount of services to assist low income Mainers with state tax filings for refundable credits. CA$H Maine is the only group providing this type of targeted outreach, financial education, and support for low-income Mainers. (As noted in this report, many paid tax preparation companies reportedly fail to screen people for state level tax credits and offer predatory refund anticipation loans.) Given the low uptake rate for state-level tax credits, particularly among people with low-income, continued funding for CASH Maine is critical for making sure people with low-incomes receive the tax credits for which they are eligible.

Duty E. *Examine mechanisms for providing any advance consolidated payment of cost-of-living tax credits recommended by the working group to persons receiving assistance through means-tested assistance programs, including, but not limited to, the federal Medicaid program, the federal supplemental nutrition assistance program administered by the State pursuant to Title 22, section 3104 or the Temporary Assistance for Needy Families program pursuant to Title 22, chapter 1053-B in a manner that will not reduce assistance from these programs solely as a result of receiving the advance consolidated payment; and*

- **Given the risks posed to people receiving or eligible for public benefits, the working group recommends the state refrain from taking any steps towards creating a periodic payment option at this time. Under current law these lump sum, year-end credits do not impact eligibility for most public programs. However, should they be received as periodic advance payments in many instances they would impact eligibility or the amount of assistance. Until federal law is changed to clarify that state tax credits are excluded as income for the purpose of determining eligibility for safety net programs, there is no way to create a periodic payment system in a manner that will not reduce at least some amounts of assistance for most.**

- **While the working group does not recommend the state pursue the periodic payment option at this time, we encourage the state to reassess this option as soon as action has been taken at the federal level to exempt tax credits as income for the purposes of calculating benefit eligibility. When the state is in a position to reassess the periodic payment option, we encourage the state to look to the findings of this report to find ways to best way to implement periodic payments and reconvene a working group to assist with this effort.**

Duty F. *Review administrative policies and practices to prevent overpayments in advance periodic payments of cost-of-living tax credits and review practices to allow for payment adjustments to reflect changes to income throughout the year.*

- **The working group has no recommendations.**

PURPOSE

The 129th Maine Legislature established the Working Group to Study Consolidation of Payment of Cost-of-living Tax Credits "to make recommendations to the Legislature regarding the most efficient and effective means to consolidate application and payment of cost-of-living tax credits, including recommendations for making such payments available on a periodic advance basis throughout the year."

The Working Group is charged with preparing a report based on its findings and the Associate Commissioner for Tax Policy with submitting the results of the study, including any suggested legislation necessary to implement the recommendations of the working group no later than March 1, 2020 to the Joint Standing Committee on Taxation and the Joint Standing Committee on Appropriations and Financial Affairs. Each committee may submit a bill to the Second Regular Session of the 129th Legislature related to the report.

In developing its recommendations, the working group shall:

A. Review the current method of applying for cost-of-living tax credits to determine how applications for those credits may be consolidated into a single, simplified application;

B. Determine the most efficient method for making a single consolidated payment to eligible individuals for all cost-of-living tax credits for which these individuals are eligible;

C. For making consolidated payments, review possible periodic schedules that are administratively feasible and best meet the needs of eligible individuals;

D. Determine methods to facilitate claims for cost-of-living tax credits, including any consolidated payments recommended by the working group, for persons applying for assistance from the Maine Department of Health and Human Services through its automated client eligibility system;

E. Examine mechanisms for providing any advance consolidated payment of cost-of-living tax credits recommended by the working group to persons receiving assistance through means-tested assistance programs, including, but not limited to, the federal Medicaid program, the federal supplemental nutrition assistance program administered by the State pursuant to Title 22, section 3104 or the Temporary Assistance for Needy Families program pursuant to Title 22, chapter 1053-B in a manner that will not reduce assistance from these programs solely as a result of receiving the advance consolidated payment; and

F. Review administrative policies and practices to prevent overpayments in advance periodic payments of cost-of-living tax credits and review practices to allow for payment adjustments to reflect changes to income throughout the year.

COMPOSITION AND STUDY PROCESS

Members of the Working Group to Study Consolidation of Payment of Cost-of-living Tax Credits

The working group is comprised of nine members.

The five members below attended every meeting:

- **Working Group Chair, Sarah Austin**, Policy Analyst, Maine Center for Economic Policy
  Representing an organization with expertise in matters related to accessing income supports, assisting low-income populations with tax filing or tax policy affecting adults with low incomes
- **Janet Smith**, Statewide Coordinator, CA$H Maine and Western Regional Manager, New Ventures Maine
  Representing an organization with expertise in matters related to accessing income supports, assisting low-income populations with tax filing or tax policy affecting adults with low incomes
- **Ann Danforth**, Policy Analyst, Maine Equal Justice
  Representing an organization with expertise in legal and policy matters related to public benefit programs that assist individuals with low incomes
- **Liz Ray**, Associate Director Policy and Programs, DHHS
- **Michael Allen**, Associate Commissioner for Tax Policy, Maine Revenue Services, Office of Tax Policy

The four members below had more limited participation:

- **Susan Kiralis**
  Representing residents of the State currently enrolled in the federal Medicaid program, the federal supplemental nutrition assistance program administered by the State pursuant to Title 22, section 3104 or the Temporary Assistance for Needy Families program pursuant to Title 22, chapter 1053-B
  While Susan wasn't able to attend a majority of the meetings – as it is challenging for single parents, students, and people who don't work in the nonprofit sector to attend meetings in Augusta – we sought her feedback throughout the process.
- **Leisha Petrovich**
  Representing residents of the State currently enrolled in the federal Medicaid program, the federal supplemental nutrition assistance program administered by the State pursuant to Title 22, section 3104 or the Temporary Assistance for Needy Families program pursuant to Title 22, chapter 1053-B.
  Leisha was unable to attend the meetings.
- **Amy Gallant**, Formerly Advocacy Director, American Association of Retired Persons Maine
  Withdrew after the first two meetings due to new employment
- **Elizabeth O'Connor**, Member, American Federation of State, County and Municipal Employees 2011
  Representing an organization representing Maine workers
  Withdrew

Study Meetings

The working group met six times during the months of October 2019 through February 2020.

Comment from Members of the Public

The committee invited Mesha Quinn, the CA$H coordinator for York county to speak to her experience working with Maine's CA$H coalition and the on the ground experience low income filers have claiming credits. In 2019, over 3,500 individuals in Maine claimed refunds equaling nearly $5 million at no cost to the filer at CA$H Maine tax sites, all while achieving a 98% accuracy rate—the highest in the tax preparation industry. CA$H Maine managed over 300 volunteers that served as schedulers, greeters, intake aides, tax preparers, financial guides, site coordinators, and special event volunteers. The volunteer tax preparers at CA$H Maine sites go through extensive training and are certified by the IRS. CA$H Maine provides high-quality service by trained volunteers who are equipped to identify tax refund opportunities for customers with the goal to help them get their maximum refund and claim all the credits that they have earned.

The working group also invited three Mainers with direct experience applying for tax credits and navigating DHHS and the public benefit system to speak to the working group about their experiences:

Robyn Young is a past recipient of public benefits, and a current advocate and researcher living in Winterport. Susan Kiralis was appointed to this Working Group, is a current participant in Parents as Scholars, a program for TANF eligible parents pursuing a post-secondary degree, and is based in Vassalboro. Kryston Lemay is an accountant and former CPA who specializes in working with small businesses, and has supported family members as they navigated DHHS. She is based in Auburn. All three participants spoke about the barriers they've experienced applying for low-income tax credits, and particularly low-income *state* tax credits. They all agreed DHHS could play an important role in alerting clients about their eligibility for low-income state tax credits, and facilitating application for them.

Participation by DHHS and MRS

The Administration supports participation in task forces and commissions and, when possible, offers information and technical assistance. For recommendations from task forces and commissions, agencies follow a formal administrative process to evaluate proposals, provide views on legislation, and engage on policies with budget implications. As a result, the Department of Health and Human Services and Maine Revenue Services do not take a position on the report or recommendations of the Working Group to Study Consolidation of Payment of Cost-of-living Tax Credits.

BACKGROUND

Context

Maine has substantially increased refundable credits in recent years. With the larger amount of resources being made available through the tax code to support low income families, our working group is being called to question whether a periodic disbursement, rather than a lump sum payment at tax time, is helpful to better meet the needs of family budgets and whether they would be administratively feasible.

Description of the “cost-of-living tax credits”

The working group studied the following “cost-of-living tax credits,” as defined by R. 2019, c. 74, individual income tax credits under the Maine Revised Statutes, Title 36, chapter 822: the sales tax fairness credit, the property tax fairness credit, the credit for child care expenses, the credit for adult dependent care expenses, and the earned income credit. The resolve described these credits as assisting Maine taxpayers with basic living expenses.

Sales tax fairness credit.

The sales tax fairness credit is a refundable credit for low income taxpayers that conceptually offsets some of the regressive nature of Maine’s sales and use tax.

Low- and middle-income residents are allowed a refundable sales tax fairness credit. For 2019, the maximum credit, known as the “base credit,” is given by the following table:

Sales tax fairness credit: base credit amount by filing status and number of dependents

Base Credit Amount	Filing status/Dependents
$125	Single
$175	Married Joint (0 dependents), Head of household (0 or 1 dependent)
$200	Married Joint (1 dependent), Head of household (2 dependents)
$225	Married Joint (2+ dependents), Head of household (3+ dependents)
$0	Married separate

In 2019 the credit is reduced by $20 for every $1,000 of income above $20,750 for taxpayers filing single, $31,100 for taxpayers filing as heads of household and $41,500 for taxpayers filing married joint returns. The phaseout income thresholds are adjusted annually for inflation. Income for purposes of the credit is equal to federal total income as reported on the individual’s federal income tax return increased by nontaxable social security and railroad retirement benefits, tax exempt interest and certain business and capital losses.

The credit does not apply to married individuals filing separate returns, “safe-harbor” residents, and individuals who are incarcerated.

For tax year 2017, Maine Revenue Services (“MRS”) estimated the average credit amount for full year residents under 65 years old to be $133.

Property tax fairness credit.

The property tax fairness credit is a refundable credit for taxpayers whose property tax or rent exceeds a certain percentage of their income that provides relief for taxpayers who have a high property tax burden relative to their income.

A refundable tax credit is available for taxpayers equal to property taxes paid on a resident's homestead above 6 percent of income.[6] The credit is limited to $750 for taxpayers under 65 or $1,200 for taxpayers 65 and older. In 2019, property taxes considered for the credit are capped at $2,050 for single taxpayers, $2,650 for a married joint taxpayer without dependents or head of household taxpayer with no more than one dependent, and $3,300 for married taxpayers with dependents and head of household taxpayers with two or more dependents. Rent constituting property tax equals 15 percent of rent. Married filing separately taxpayers cannot claim the credit. Income for purposes of the credit is equal to federal total income as reported on the individual's federal income tax return increased by nontaxable social security and railroad retirement benefits, tax exempt interest and certain business and capital losses.

The credit calculation results in an effective income cap for the credit, based on the taxpayer's filing status and number of qualifying children and dependents. For 2019, the cap is shown in the table below:

Property tax fairness credit: Income limits by filing status and household composition, tax year 2019

Filing Status:	**Qualifying children and dependents:**		
	0	**1**	**more than 1**
	Maximum income limitation is:		
Single	$34,167	$34,167	$34,167
Head of Household	$44,167	$44,167	$55,000
Married filing Jointly or Qualifying Widow(er)	$44,167	$55,000	$55,000

For tax year 2017, MRS estimated the average credit amount for full year residents under 65 years old to be $285. Changes in tax law are expected to increase the average credit starting in tax year 2020.

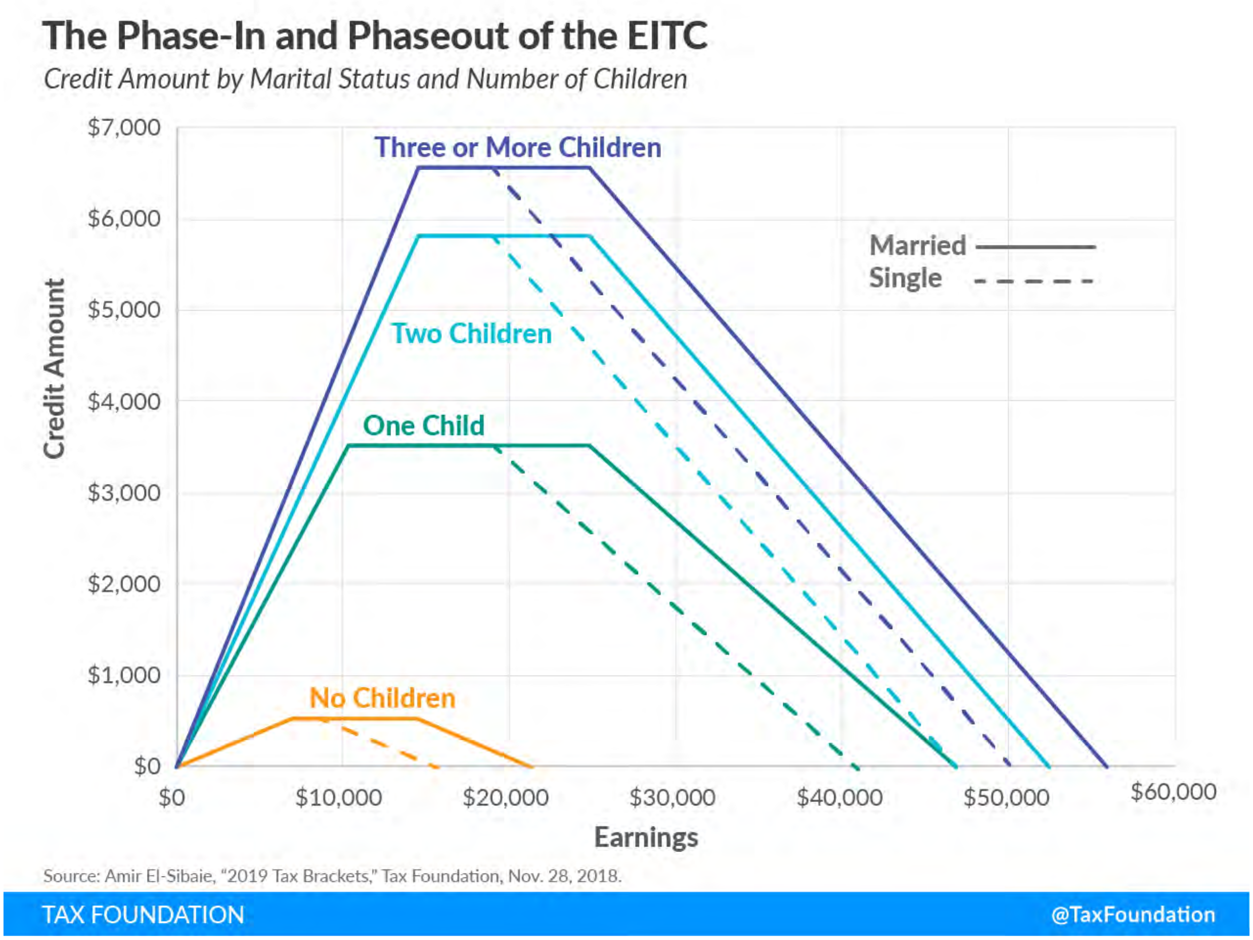
Earned income credit.

The earned income credit is a tax credit primarily targeted at working low-income families. A taxpayer is allowed a refundable credit equal to 5% of the federal earned income credit. For tax years beginning on or after January 1, 2020, the Maine earned income credit is increased from 5% to 12% of the federal earned income tax credit (25% for eligible individuals who do not have a qualifying child). The credit is also extended

[6] For tax years 2020 and after, the credit is equal to property taxes paid on a resident's homestead above 5 percent of income.

to individuals who are 18 to 24 years of age, have no qualifying children, and are otherwise qualified for the federal earned income tax credit.

As shown by the following graph from the Tax Foundation, the federal earned income tax credit consists of a phase-in period earnings, a plateau period, and then a phase-out period as the taxpayer's income rises.



For tax year 2017, MRS estimated the average credit amount for full year residents under 65 years old to be $111. Changes in tax law are expected to increase the average credit starting in tax year 2020.

Credit for child care expenses.

The credit for child care expenses is a tax credit for expenses paid for the care of a qualifying individual to enable a taxpayer (and their spouse, if filing a joint return) to work or actively look for work. The State credit is based on the federal Child and Dependent Care Credit.

An individual taxpayer is allowed a credit for expenses incurred for the care of a child or a dependent during the year, while the taxpayer worked or looked for work. The credit is 25% of the allowable federal tax credit, or 50% of the allowable federal tax credit with respect to quality child care services. The credit is refundable up to $500 for resident taxpayers. However, because the credit is a percentage of the nonrefundable federal credit, the refundability of the State credit does not effectively target low-income taxpayers.

"Quality child-care services" is defined as services provided at child-care sites that meet minimum licensing standards and are accredited by an independent, nationally recognized program approved by the Department of Health and Human Services ("DHHS"), Office of Child Care and Head Start. The service provider must utilize recognized quality indicators for child-care services approved by DHHS, Office of Child Care and Head Start and include provisions for parent and client input, review of the provider's policies and procedures, program records and an on-site program review.

For tax year 2017, MRS estimated the average credit amount for full year residents under 65 years old to be $154.

Credit for adult dependent care expenses.

The credit for adult dependent care expenses is a tax credit for expenses paid for the care of adult dependents beyond the expenses that qualify for the federal Child and Dependent Care Credit and the State credit for child care expenses.

Eligible taxpayers are allowed to claim a tax credit equal to 5% – 8.75% of adult dependent care expenses paid for adult day care, hospice services and respite care during the taxable year to the extent the expenses are not used to calculate the federal child and dependent care credit. The credit percentage depends on federal adjusted gross income.

The dependent care expenses that may be used to calculate the credit are limited to $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals. The credit is refundable up to $500.

MRS estimated the total fiscal year 2020 general fund revenue loss for the credit to be $15,000 with approximately 100 taxpayers claiming the credit.

DHHS intake system

DHHS presented to the working group on its intake process for clients applying for public benefits. The department is currently using a three-pronged computer system to store documents, track department tasks, and manage client eligibility.

After receiving applications, DHHS processes the application and related documents. The materials are scanned into the Fortis System, which is a document management software that electronically captures, stores and organizes documents so they can be accessed by any Office for Family Independence worker with permission. As soon as the documents are in Fortis, a task is created within Siebel, the Department's customer relationship management software, which tracks the status of all tasks within OFI.

Tasks are then created and updated by a user to track documents received on intake or when documents are received through other methods. Siebel also creates tasks for anticipated events, such as reviews. Siebel assigns tasks to a worker, who adds and/or updates information provided by the client on the application into ACES, DHHS' Automated Client Eligibility System.

ACES stores client, households and eligibility decision information. At this point, the worker schedules an interview date and time with the client by creating a client notice through ACES. This notice is sent to the client. For programs that require it, the client attends their scheduled interview either at their local DHHS office or by telephone with an Eligibility Specialist, who assesses their financial and non-financial factors. Once an eligibility decision is made and accepted in ACES, determination notices are generated in ACES and provided to the client and tasks are set in Siebel for the client's applicable review periods.

DHHS involvement in state tax credits

DHHS is in a unique position to help facilitate the application for low income tax credits, particularly for those people who are non-filers with low participation rates, given DHHS' existing role providing services and supports to low-income Mainers. DHHS is regularly in contact with over 300,000 individuals, many of whom are likely eligible for low-income tax credits, but may not be currently receiving them. The following November 2019 numbers provide a snapshot of the number of Maine people receiving assistance, with whom DHHS is in contact:

- Families receiving Temporary Assistance for Needy Families (TANF): 3,722 households, representing 6,668 children;[7]
- Individuals and families receiving Food Assistance (SNAP) benefits: 89,909 households, representing 167,485 individuals[8] of which 58,523 were children under 18;[9] and
- Individuals covered by MaineCare or the Medicare Savings Program (health insurance or limited assistance with drugs and out-of-pocket costs): 290,052 individuals.[10]

What's more, the Department has a large amount of information it has already collected from clients in order to administer benefits, which has been pre-verified. Among other information, this includes name, address, family composition and size, and prospective income. In the case of those receiving TANF and Food Supplement benefits (and in some cases MaineCare) there is also housing information. DHHS stores client information in its Automated Client Eligibility System (ACES), a database that helps the Department determine eligibility for and track information related to client benefits. Given eligibility levels for low-income tax credits, on the one hand, and public benefits administered by DHHS, on the other, we believe that there is much overlap between people eligible for, but not receiving state low-income tax credits, and people receiving public benefits. And we suspect overlap is highest among non-filers (a population we know is least likely to receive tax credits they are eligible for). Moreover, some of this data is available for prior years for those receiving assistance in that period. This would be particularly helpful for determining eligibility for state tax credits that rely on data from that prior period.

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[7] Maine Department of Health and Human Services. Geographic Distribution of Programs and Benefits. November 2019. https://www.maine.gov/dhhs/ofi/reports/2019/geo-distribution-nov.pdf

[8] ibid

[9] Maine Department of Health and Human Services. Summary Count of 5 Year Olds and Younger Active on TANF and/or Food Supplement as of: November 2019. https://www.maine.gov/dhhs/ofi/reports/2019/SummaryCountsByCounty-Nov2019.pdf

[10] Maine Department of Health and Human Services. Geographic Distribution Of Programs and Benefits Overflow A for November 2019. https://www.maine.gov/dhhs/ofi/reports/2019/overflow-a-nov.pdf

According to data provided by MRS to this working group, the income breakdown of full year residents claiming low income tax credits in tax year 2017 is as follows:

Tax Year 2017 Full-year Resident Credits ($million)

	PTFC			STFC			EITC			Child care	
Income	$	#filers		$	#filers		$	#filers		$	#filers
<= $10,000	$3.65	10,269		$4.86	34,687		$1.28	23,850			
$10,000 <= $20,000	$5.85	17,667		$9.31	64,452		$3.82	27,289		$0.02	387
$20,000 <= $30,000	$3.87	14,916		$6.48	55,167		$3.25	18,960		$0.34	2,449
$30,000 <= $40,000	$1.48	7,718		$3.91	24,689		$1.43	14,784		$0.39	2,485
Over $40,0000	$0.31	2,543		$1.53	16,582		$0.33	6,130		$3.41	21,784

Note: Income = Total income on Schedule PTFC for PTFC/STFC and Federal AGI for EITC and Child Care Credit

Recognizing the role DHHS could play in improving access to and uptake rates for low-income tax credits, a prior legislature directed DHHS (PL 1997, Chapter 530 Part A §17) to notify participants in ASPIRE – a program that helps TANF recipients find employment – about the federal EITC. In addition, in 2013, the legislature passed a budget that included a requirement that DHHS assist clients with the PTFC application.[11] This latter requirement was never implemented in full.

> Sec. L-4. Assistance with application. The Department of Health and Human Services shall add the property tax fairness credit established in the Maine Revised Statutes, Title 36, section 5219-II to the automated client eligibility system application processes to identify renters, persons with disabilities, low-income seniors and others who may be eligible for the credit but do not file an income tax return. The department shall develop a process to assist persons who are eligible for the credit with completing the necessary income tax forms to apply for the credit.

The Department has recently agreed to send out a letter notifying their clients that they may be eligible for the PTFC. However, this fails to adequately respond to the direction in this statutory language. More work is needed to fully address this purpose, for which we offer suggestions below.

The benefits of having DHHS use ACES or its successor to assist people in applying for tax refunds was identified back in 2009, when the legislature passed Resolve 2009, c. 189, which directed MRS to analyze the use of ACES in the Maine Residents Property Tax and Rent Refund "Circuitbreaker" Program Application Process. The 2010 report concluded that with certain changes, the ACES program could be used to help clients apply for Circuitbreaker benefits and would likely increase the number of eligible individuals receiving refunds by 25,000 people, totaling $13,575,000 in additional annual benefits. (Note that this report looked at the Circuitbreaker program, not the PTFC in its current form.)

Free Tax Filing Services for Maine Filers

CA$H Maine provides free tax preparation for low and moderate income households (for TY 2019 it is $56,000 or less) with a focus of those eligible for the EITC and it receives a VITA (Volunteer Income Tax

[11] P.L. 2013, ch. 368, § L-4
http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=HP1079&item=44&snum=126

Assistance) Grant from the IRS to support the tax sites including the coordination of the tax preparers and equipment.

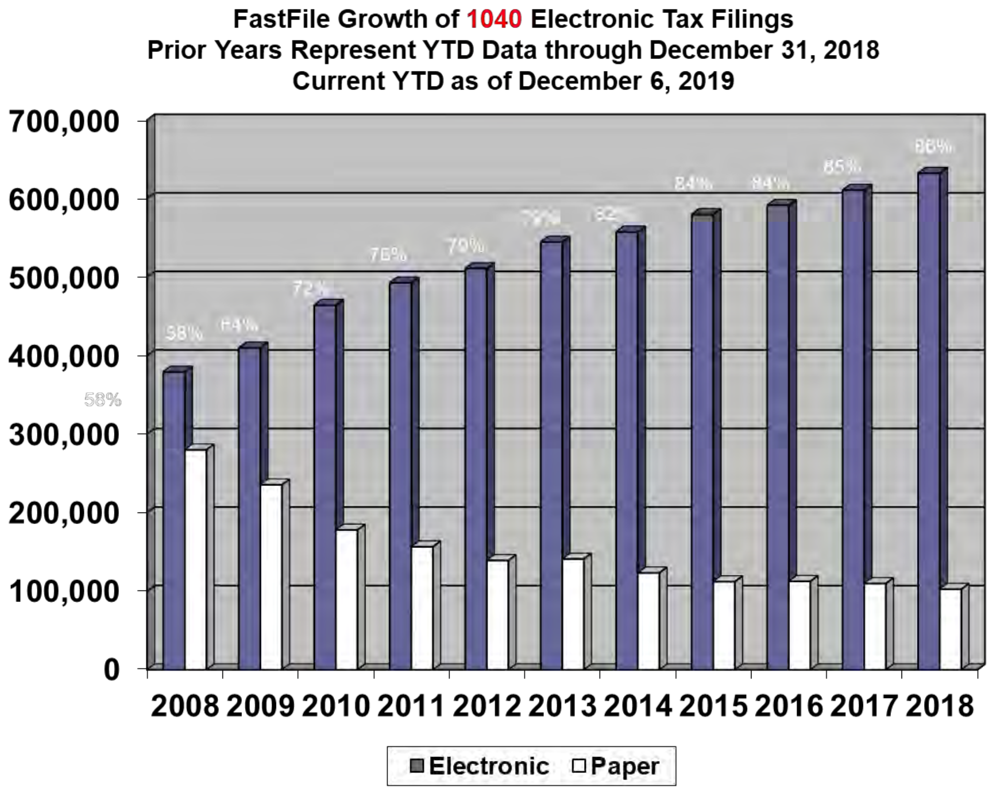
The measure reported to the IRS for this VITA grant is the number of federal tax returns prepared. Therefore, any tax returns that are Maine credits only, like the Property Tax Fairness Credit and the Sales Tax Fairness Credit, are prepared by CA$H Maine volunteers and are not supported by the VITA grant. In addition, VITA promotes incorporating financial education and to encouraging tax filers to save some of their refund but does not allow the funds to be used for this purpose. For the past six years CA$H Maine has funded this work along with the coordination of the ten CA$H Maine coalitions including providing outreach with funding from the John T. Gorman Foundation. This funding will end December 31, 2020 and will reduce their ability to continue this important work.

AARP Foundation Tax-Aide program participates in both the VITA/TCE programs. It offers free tax preparation to tax filers of any age, but encourage participation from those who are 50 or older or cannot afford paid tax preparation. The sites do not have specific income limitations, but the focus is reaching low to moderate income taxpayers. AARP is supported nationally by the AARP Foundation.

Additionally, MRS operates a service center in Augusta to assist with tax filer questions and help Mainers file their returns. Phone assistance is also available through MRS and Mainers are able to I-file their taxes using the State's free software.

Preference for Paper and Electronic Filing Methods

Maine tax filers are increasingly foregoing paper tax forms and instead filing their taxes electronically. In 2018, 86 percent of tax returns were filed electronically. Filers who are doing their own taxes can file electronically through the state's free software, but also through a number of other online software products and many free and paid tax preparers also use software rather than paper forms to file returns for their clients. While 14 percent of filings still come in the form of paper returns, this shift in preference toward online filing places greater onus on the user interface of the many available software programs to ensure Mainers are aware of the credits for which they are eligible and can easily apply for them when they file their income tax returns.



Past Periodic Payment of Low Income Tax Credits

From 1978 to 2011, an advanced payment option existed for the federal Earned Income Tax Credit (EITC). In this program, employees would notify their employer that they were likely eligible for the EITC and employers would advance a portion of the expected credit to those employees as an addition to their regular pay. Ultimately, few people (less than 3 percent of those eligible) chose advanced periodic payments.[12]

A 1992 General Accounting Office (GAO) report identified three principal reasons for low utilization of the EITC advance payment option that remain relevant today: 1) many eligible employees and their employers were not aware of the option; 2) some employees feared having to repay advances when they file their tax returns; and 3) some employees preferred a single lump-sum refund payment instead of smaller periodic payments. Other possible factors have been suggested, including employer unwillingness to participate and employee fears of stigmatization or wage depression if an employer is aware of EITC eligibility.[13]

More recently a periodic payment pilot was performed in Chicago with positive results. The Tax Policy Center describes the analysis and results of the study:

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[12] US GAO (US Government Accountability Office). 2007. "Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance." Washington, DC: US GAO.

[13] Smeeding, Timothy M., Katherin Ross Phillips, and Michael A. O'Connor (2001). "The Earned Income Tax Credit: Expectation, Knowledge, Use, and Economic and Social Mobility." In Bruce Meyer and Douglas Holtz-Eakin, eds., Making Work Pay: The Earned Income Credit and Its Impact on America's Families. Russell Sage Foundation.

> The analysis found that when the EITC was advanced on a quarterly basis, participants in the experiment were more likely to be able to afford child care and education. Recipients reported being more likely to make ends meet than in the prior year, when their credit was distributed as a lump sum. Recipients were less likely to face financial stress and experience food insecurity and more likely to pay rent and basic bills on time. It is not clear whether these results would be generalizable to monthly or more frequent payments.[14]

Working Group interaction with Study Committee

This working group is aware of the Committee To Study the Feasibility of Creating Basic Income Security established by LD 1324 in the 129th Legislature, which plans to begin meeting this spring. Some of the duties of that commission are similar in scope to the investigations of this working group. In particular, one of the Committee's duties reads:

> *That the committee shall examine and make recommendations on the feasibility of providing basic economic security through a direct cash payment system and other programs that are designed to help individuals and families become more economically secure, including, but not limited to:*
>
> > *1. Tax rebates and credits, including strengthening the earned income tax credit and a negative income tax;*

We hope that the breadth of background information on state tax credits gathered by this Working Group will be informative for the Committee. Additionally, we have structured some of our examinations of feasibility in view of the broader scope of recommendations the Committee is charged with developing, most notably the size of state tax credits.

Our working group is charged with examining the feasibility of periodic payments of cost of living tax credits which we believe is linked to the overall size of tax credits available. For example, if the average refundable credit to low income filers were only $100, it is less feasible to administer that refund in installments throughout the year because of the cost of administering would be great relative to the benefit to Maine tax filers. With this relationship in mind, our Working Group made comments where appropriate to acknowledge how feasibility might change if other factors, such as overall credit size, were to be altered.

FINDINGS

Definition of Cost of Living Tax Credits

This Working Group was charged with examining a group of credits referred to as "cost of living" tax credits. These are the credits we considered as we examined the feasibility of advanced periodic payments of

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[14] Urban Institute & Brookings Institution, Tax Policy Center. Elaine Maag, Donald Marron, and Erin Huffer. 2019. "REDESIGNING THE EITC: ISSUES IN DESIGN, ELIGIBILITY, DELIVERY, AND ADMINISTRATION". See also Mendenhall, Ruby, Renee Lemons, Flavia Andrade, Andrew Greenlee, Karen Kramer, Loren Henderson, Lizanne DeStefano, Christopher Larrison, Ilana Redstone Akresh, and Kevin Franklin. 2015. Chicago Earned Income Tax Credit Periodic Payment Pilot Final Evaluation. University of Illinois, Urbana-Champaign and Center for Economic Progress. Dylan Bellisle & David Marzahl. Restructuring the EITC: A Credit for the Modern Worker.

refundable credits and new systems to improve access to credits through partnership between MRS and DHHS. The committee examines the structure of five refundable or partially refundable credits which are the property tax fairness credit, the sales tax fairness credit, the earned income credit, the income tax credit for child care expenses and the adult dependent care credit.

After examining the structure of these state credits we believe the definition of “cost of living” tax credits as it related to the recommendations of this Working Group should be limited to the state earned income credit, the sales tax fairness credit, and the property tax fairness credit as these credits have a relatively large base of eligible filers and the benefits are concentrated on low to moderate income households.

The state’s income tax credit for child care expenses and the adult dependent care tax credits are not as practical to be included in this group because while they are technically refundable, they are built off of the non-refundable federal child and dependent care credit. Families are only eligible for the state credit if they are able to claim the federal credit. Low income families, many of whom do not have a federal tax liability, would not be able to claim the federal credit and would therefore be ineligible for the refundable state credit. Additionally, the state credits combine to offer less than $5 million in tax benefit to filers each year[15] and would be unlikely to offer substantial benefit to many families benefiting from an advanced periodic refund.

Consolidated credit size

The workgroup studied the possibility of making advance payments on a quarterly or monthly basis for the cost-of-living tax credits.

In the upcoming tax year 2020 the maximum total refundable credit amount is $1,774, however the chances of one taxpayer receiving the maximum of each of these credits is low. For example, in tax year 2017, for full year residents under the age of 65, the average credit amount for the EIC and the PTFC was less than half the maximum credit and the average STFC was just over half.

Tax year 2020 credit amounts for full year residents under the age of 65.[16]

Credit[17]	Maximum Credit
Sales tax fairness	$225
Property tax fairness	$750
Earned income	$799

Take up rates for state credits

Too many Mainers who are eligible for state cost of living tax credits, including the EITC, STFC, and PTFC are not receiving them. This is especially true when it comes to certain people eligible for the PTFC, where the

[15] Maine Tax Expenditure Report 2020-2021 & Maine Tax Incidence Study. DAFS and MRS. https://www.maine.gov/revenue/research/tax_expenditure_19.pdf
[16] The credit for child care expenses is not included in this table because it targets a different population than the other credits. The credit for adult dependent care expenses is not included due to its low usage.
[17] Because the credits for child care expenses and for adult dependent care expenses do not target the same low-income taxpayers as the EIC, sales and property tax fairness credits and they are not discussed in this section.

uptake rate drops to below 28% for non-filing renters. Many of these individuals are among those most in need of property tax relief.

We believe that one of the biggest reasons for low uptake rates among people eligible for tax credits – particularly state tax credits – is people's lack of awareness about their eligibility. Some of the potential explanations for low awareness raised by working group members include the following:

- Many of the "big box" tax preparation companies only screen people for federal tax credits, and do not screen people for state tax credits. It's possible that the tax preparation software used by these companies is inadequate to screen for state level tax credits. While there are VITA sites in Maine that assist low-income people with tax filing that do screen and assist people in applying for both federal and state tax credits, these sites are technically funded only to help people apply for federal credits.
- CA$H Maine tax sites report working with tax filers each year who previously used on-line tax preparation services and/or brick and mortar tax services who did not file Maine tax credits for them. Others who are only eligible for the Maine PTFC and STFC report not applying for these in the past because if they had to pay to have their taxes prepared it would take their entire refund.
- Because the PTFC, STFC, and EITC are refundable, people who aren't required to file income taxes, or "non-filers," are eligible for and could benefit from these tax credits. Many non-filers are not aware that they could benefit from filing for these credits, and are not in the habit of filing taxes.
- Some suspect that frequent change of address among renters accounts for lower PTFC uptake. In addition, some speculate that because the PTFC has "property tax" in its name, renters think they are ineligible for the credit. It is unlikely, however, that this fact alone accounts for the low uptake rates. When the program was called the Maine Residents Property Tax and Rent Refund "circuitbreaker" Program, the uptake rate was around 50% among Maine homeowners/renters eligible for the program.

Below are state tax credit participation rate estimates provided to the working group by Maine Revenue Services (MRS):

Earned Income Tax Credit (EITC)

- With respect to the federal EITC, Plueger (2009) estimates a 75.3% participation rate based on exact matches of IRS and CPS ASEC data.
- 77.9%[18] of eligible Mainers claim the federal EITC. A majority of those (93%) who file the federal EITC also claim the state EITC (filing the federal EITC is a prerequisite to filing the state EITC). This means about 72.4% of eligible Mainers are claiming the state EITC.

Property Tax Fairness Credit (PTFC)

- A rough estimate is that PTFC take-up is 60-70% among people who file a Maine income tax return, but drops to an overall take up rate of 45-55% when non-filers are also counted among the eligible.
    - For homeowners in 2015, the ratio of PTFC claims to the estimated total eligible filers is about 66%; including non-filers drops this ratio to 46.4%.

[18] Internal Revenue Service. EITC Participation Rates by States. Updated October 2019. https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states

- For renters in 2015, the ratio of PTFC claims to the estimated total eligible filers is about 42%; but when non-filers are included this ratio drops to 28%. (MRS notes the number of eligible renters may be overstated, as generally, anyone who receives a housing subsidy that requires the recipient to spend 30% of income on rent is ineligible for the PTFC.)
- Estimated PTFC Claims / # eligible is higher for the elderly: 82.7% vs 49.3% for filers, 44% vs 37% including non-filers (renters and homeowners).
- Excluding non-filers, PTFC Claims / # eligible is highest for taxpayers with income under $10,000 (59%), but this is not true when non-filers are included.

Sales Tax Fairness Credit (STFC)

- The participation rate percentage among people who filed an income tax return is somewhere in the high 90s based on a quick model estimate.
- The number of non-filer tax units have about a 72% participation rate (a rough estimate).

Efficacy of Tax Credit Awareness Programs

The working group finds awareness to be a barrier to claiming tax credits, however we also know that awareness campaigns alone cannot be expected to improve uptake rates. Additional efforts to remove barriers to filing taxes are needed to improve access to credits.

A recent report from a California study underscores the need to remove barriers to tax filing to improve take up rates.[19] The study involved a variety of methods including texting and letters to raise awareness of non-filing Californians about their likely eligibility for state and federal refundable credits. The study results show that while awareness is critical for a filer to enter the process, awareness alone does not improve take up rates. The report suggests that increasing the capacity, hours, and number of free preparation sites could help remove barriers and suggests exploring innovative administrative changes such as testing ways to prefill tax information for tax filers so that they only have to confirm information on prefilled forms to file their taxes.

Mission of Maine Revenue Services

Refundable tax credits are becoming more prevalent at both the federal and state levels as policymakers use the tax system rather than traditional expenditure programs to deliver targeted benefits to low- and moderate-income households. While the tax system can be an administratively efficient way to provide some social benefits to targeted households, it also changes the role of the tax agency (i.e. Internal Revenue Service (IRS) and Maine Revenue Services (MRS)) from primarily an enforcement agency to a benefits administrator.

Presently, the mission of Maine Revenue Services is to fairly and efficiently administer the tax laws of the State of Maine, while maintaining the highest degree of integrity and professionalism.

If the Maine Legislature intends for MRS to take on a larger role in the area of administrating benefit programs, it needs to consider the change in mission of the tax bureau and create tax credit programs that can be effectively administered by MRS without undue burden on the intended beneficiaries. In order to take

[19] Linos, Elizabeth et al. January 2020. "Increasing Take-Up of the Earned Income Tax Credit" https://www.capolicylab.org/wp-content/uploads/2020/01/Increasing-TakeUp-of-the-Earned-Income-Tax-Credit.pdf

on the new role, MRS will likely need increased funding and positions to ensure that taxpayers are aware of the programs and receive the benefits that they are eligible for. This is particularly true when new programs target populations that have not historically had significant interactions with MRS.

Information sharing between MRS and DHHS

State and federal law require MRS and DHHS to maintain the confidentiality of the client and taxpayer information that they have. These laws generally limit or outright prohibit the sharing of confidential information between different agencies. These protections are critically important to maintaining taxpayer and client trust in the agencies. Without these protections taxpayers and clients may be unwilling to provide accurate information to these agencies, impairing their ability to function.

Due to the overlap of the federal and State earned income tax credit and the State's use of the federal income tax code as the starting point for the Maine income tax, the State has a mix of confidential federal tax and State tax information. Federal tax information is governed by the federal law and may not be shared between agencies except in very limited situations. State tax information is controlled by state law, primarily Maine Revised Statutes, Title 36, section 191. It is illegal for MRS to share state tax information with other agencies unless specifically authorized by law.

DHHS-OFI has an integrated eligibility system that contains multiple forms of protected data received from individuals and from numerous federal and state sources, including the Social Security Administration (SSA), the Internal Revenue Service (IRS), and the Centers for Medicare and Medicaid Services. Due to the sensitive nature of this data, which is comprised of both Personally Identifiable Information (PII) and Protected Health Information (PHI), as well as Federal Tax Information (FTI), there are limitations on sharing department data. OFI is unable to share information with other entities unless required by law or if there is a Memorandum of Understanding (MOUs) and/or Data Use Agreement (DUAs). DHHS is expressly prohibited from sharing FTI, under Internal Revenue Code (IRC) and the IRS Pub 1075, Section 1.4.5, which, states, "*Access to FTI is permitted only to individuals who require the FTI to perform their official duties and as authorized under the IRC. FTI must never be indiscriminately disseminated, even within the recipient agency, body, or commission.*"

This issue is part of the resolve accompanying this report (appendix 2), which requires DHHS and MRS to work to identify strategies to facilitate application of persons potentially eligible for tax credits in a manner that respects confidentiality.

Demand for Advanced Payments

There is limited information to estimate the demand for advanced periodic payments in Maine.

MRS shows a high rate of over withholding among low income tax filers. These filers are withholding more in income taxes from their paychecks than they owe at the end of the year and are receiving refunds on the balance. In 2017, there were 83,680 residents with refundable PTFC, STFC, and EITC that totaled more than $200. Of this population, 63 percent over withheld by an average of $439 over the year. It is possible that this could indicate a wide preference for tolerating lower paychecks to have a method for forced savings through tax withholdings that allows filers to access larger lump sum refunds at tax time. It is also possible that low income filers are unaware of how to adjust their withholdings as the tables are not able to account for some of the refundable credits many low income filers receive.

Mesha Quinn of York County CA$H shared anecdotal evidence that some clients of CASH reported having used refund anticipation loans which might demonstrate demand for getting refunds sooner. Although, with these loans, tax filers receive only one payment of their refund so demand for the loans does not necessarily speak to demand for periodic payments of refunds. Additionally, Robyn Young and Susan Kiralis shared differing preferences about the timing of refunds, one preferring the lump sum payment to make larger purchases and the other having a preference for spread out payments to help with month to month budgeting.

Two studies also offer competing conclusions about the demand for advanced payments of tax refunds. The federal EITC had an advanced payment option for eligible filers with children for decades. The advanced payments were administered through higher paychecks throughout the year, but the program suffered from very low take up rates. In 1997, only 1.5 percent of eligible filers participated in the program and by 2001 the participation rate dropped to only 0.8 percent of eligible filers. Researchers have concluded that awareness about the program by employers and employees was low and that education campaigns would ultimately do little to significantly improve take up rates.[20]

An EITC pilot program in Chicago which offered anticipated federal EITCs on an advanced periodic basis showed a high demand for this style of payment. The study disbursed the anticipated refund over four payments throughout the year. Of the participants receiving the refund as an advanced periodic payment, 90 percent said they would want to receive their refunds in a similar form in future years. Of those who received their refunds normally but who were told about the advanced payments, half were interested in the alternative to their normal once a year refund. [21] This program offered advance payment for the federal EITC which has an average benefit of roughly $2,500 and allowed half of anticipated refunds be allowed in advance. This larger amount may have played a role in the desirability of quarterly payments.

Differences between the structure of the advanced payments are that the federal program was split into paychecks across the year, resulting in much smaller weekly or bi-weekly payments. The Chicago pilot split the advanced portion of the refund into four payments which may have been easier for participants to use for larger and higher return purchases such as a car repair.

Feasibility of Advanced Periodic Payments

Maine Revenue Services' existing system for processing refunds operates by triggering a refund and then resolving the case when the refund is issued through direct deposit or paper check. The system is not currently equipped to keep active cases that disburse refunds throughout the year. This would require a reworking of the system's technology to build in these capabilities and likely come at a cost to the state to set up the technological infrastructure.

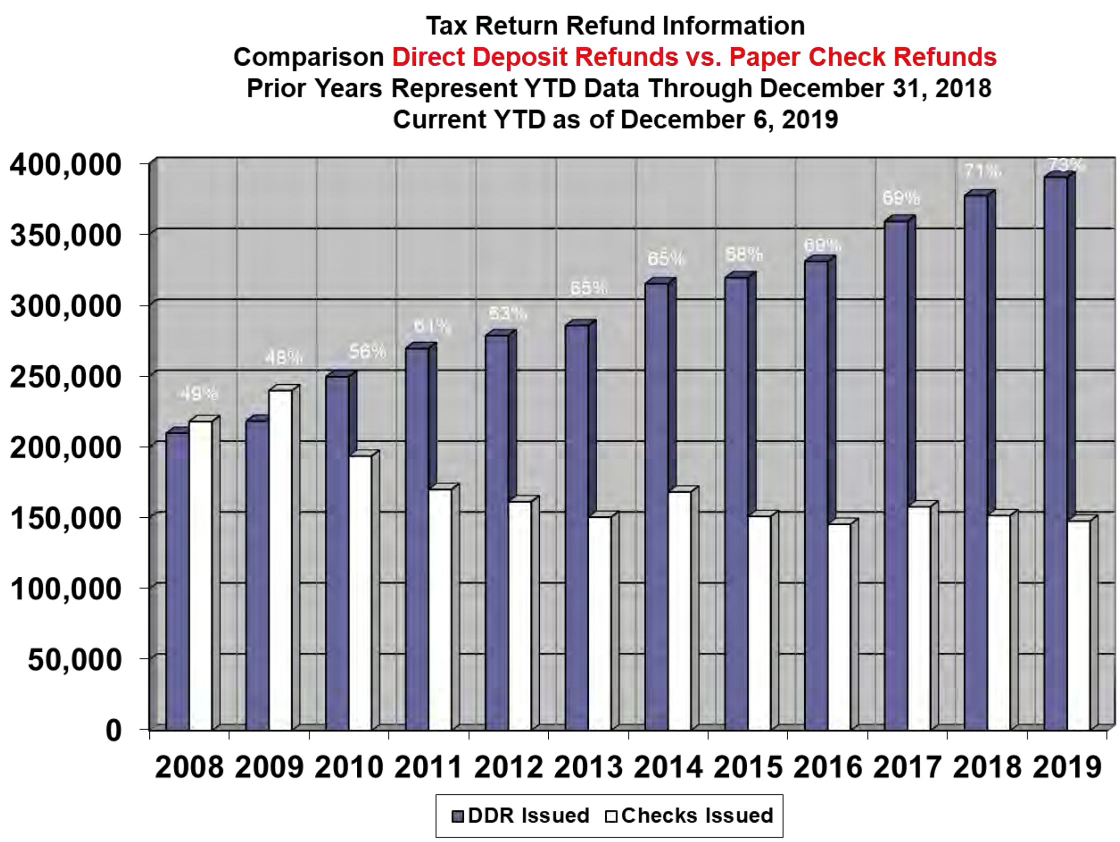
[20] Holt, Steve. Beyond Lump Sum. The Brookings Institution. https://www.frbsf.org/community-development/files/Holt_Steve.pdf

[21] Center for American progress. 2015. RESTRUCTURING THE EITC: A CREDIT FOR THE MODERN WORKER

Method of Periodic Payment Dispersal

Direct deposit is the best way to administer periodic payments at a low cost and the state could require direct deposit for participants in periodic payments if it wished to limit costs of disbursing payments. The frequency with which Maine filers use direct deposit for refunds due has been on the rise for over a decade and most Maine tax filers already opt for direct deposit. In 2017, 73 percent of Maine filers used direct deposit to receive their refunds.

MRS currently issues refunds through direct deposits into tax payer bank accounts or through paper checks mailed to the filer. Paper checks are costly to print and mail and direct deposit is significantly lower cost. If the state were to move toward a periodic payment of refunds, the cost of issuing the funds would increase, especially for filers without direct deposit. Mainers are more likely than the national average to have a bank account adding to the ease of using direct deposit for tax refunds. Only 4 percent of Maine households do not have a bank account compared to 6.5 percent of households nationwide.[22]



One cost saving alternative other states have used for issuing refunds are prepaid debit cards. The costs to the state are lower than printing checks and the cards can be loaded up for subsequent payments similar to an EBT card. However, these cards often come with fees for ATM withdraws, fees for inactivity, fees for balance in queries and other costs to the tax filer that would reduce their refunds. Additionally, security of

[22] Prosperity Now. State Data: Unbanked Households https://scorecard.prosperitynow.org/data-by-issue#finance/outcome/unbanked-households

tax payer information is a concern as the state would contract out to a financial service company to issue the cards.

In 2013, Virginia joined several other states in offering refunds through direct deposit or prepaid debit cards only. But in 2015 Virginia halted this program after tax filers complained of cards not working and high fees. Lawmakers also complained that the contract with the card servicer prevented the state from evaluating the level of fees assessed on taxpayers accessing their refunds, obscuring the total cost of the debit card program. Soon after Virginia ended their program, Minnesota announced it would not be moving forward with its plan to move tax filers without direct deposit to prepaid debit cards.[23]

Despite the low cost to the state of debit cards, the state should consider the potentially high cost assessed on tax filers and potential security risks of using a third part to administer refunds.

Accuracy of Advanced Payments

Advanced payments require the ability of tax filers and MRS to be able to predict an end of year refund with reasonable accuracy to avoid filers owing a tax liability when they file their end of year return. A combination of limiting the advanced payment to only a portion of the anticipated refund, limiting eligible participants in advanced payments to those with relatively large refunds, and relying on the already high withholding amounts in Maine can all lessen the risk of participants having to owe taxes when they file their end of year return.

For tax years between 1993 and 2010, the Advanced EITC maximum was limited to filers with qualifying children and the maximum amount available in advance payments was 60% of the estimated EITC, but the percent available in advance varied depending on income and household size.[24] A GAO report documented high rates of filers using the program who were ineligible because of inaccurate social security numbers; participants receiving the payments failing to file their taxes at the end of the year; and participants failing to report or accurately report the amount of Advanced EITC received. All of these administrative difficulties led to a program that was highly inaccurate in the final payment received, but the report does not report on the ability to accurately predict a filers income, family status, and credit size.

The 2014 Chicago pilot study limited the advanced portion of the EITC to 50 percent of the anticipated refund. The study also limited participation to filers with children, who were in good standing with the IRS and who had received an EITC of at least $600 in the prior year. Using these restrictions limited the risk to participants of owing tax liability at the end of the year. Only 1.3 percent of participants owed any tax when they filed their year end taxes.

MRS presented data showing that withholdings are typically high and that could provide some additional cushion to protect participants from owing a tax liability at the end of the year.

[23] Jennifer DuPaul. April 2015. Tax Notes. DOR Debit Card Use Draws Scrutiny As State Reverts to Paper Refund Checks https://www.taxnotes.com/tax-notes-state/financial-instruments/dor-debit-card-use-draws-scrutiny-state-reverts-paper-refund-checks/2015/04/06/b8qg?highlight=tax%20refund%20debit%20cards%20Connecticut
[24] US GAO (US Government Accountability Office). 2007. "Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance." Washington, DC: US GAO.

Several mid year changes could adversely impact MRS's ability to accurately estimate a filers estimated refund in advance.

- Changes to household status and income mid year could impact a filers estimates refund. Marriage, divorce, changes to households size and other changes can affect the size of a filers end of year refund and could lead to some filers owing a tax at the end of the year. A filer could also secure a higher paying job mid year which would lower their anticipated refund and could result in an end of year tax liability.
- Changes to state of residence mid year present another set of administrative challenges. Part-year resident tax filers are eligible for pro-rated credits. Depending on the timing of their move to another state, the filer could receive advance payments in excess of their end of year refund due.
- Legislative changes to tax policy mid year could change a filers' anticipated refund after they've already received portions of that refund in advance. It's uncommon for the legislature to retroactively decrease taxes in a tax year that has already begun, but it is not impossible. The administration would need to be ready to educate the Legislature about possible impacts of tax policies being considered on participants in the periodic payment program and prepare a plan to alert filers and alter their payments to reflect the change in policy.

Periodic Payment Schedule of Advanced Payments

Periodic payment schedules could be established on the weekly or bi-weekly schedule to simulate the frequency of paychecks. Under this schedule, the payments would be small. Even a family that receives the $1774 maximum refund, which is very uncommon, the family would receive a bi-weekly payment of only $34 if 50 percent of the credits were available as advanced payments. Most filers would receive much less. The administrative costs under this scenario would be highest.

Monthly payments would offer payments on a schedule that most families owe bills. If 50 percent of anticipated credits were available on this advanced schedule the maximum benefit to a filer would be $74.

Quarterly payments have the benefit of being dispersed throughout the year, while also retaining the value of being larger payments that could be used to help with a car repair or other larger expenses. Families with the maximum amount could receive $221. This schedule would have the lowest administrative costs.

Periodic Payment Interactions with Eligibility for Safety Net Programs

The working group examined how turning state tax credit payments into periodic payments would impact eligibility for means tested programs, including TANF, Food Supplement benefits, Medicaid, the Child Care Subsidy Program, and Section 8 Housing. Federal law excludes federal EITC refunds from all means-tested programs as income in the month received and as assets for 12 months. But, federal law says nothing generally about state tax credits, including state EITC or others.

> 26 USC §6409. Refunds disregarded in the administration of Federal programs and federally assisted programs
>
> Notwithstanding any other provision of law, any refund (or advance payment with respect to a refundable credit) made to any individual under this title shall not be taken into account as income, and shall not be taken into account as resources for a period of 12 months from receipt,

for purposes of determining the eligibility of such individual (or any other individual) for benefits or assistance (or the amount or extent of benefits or assistance) under any Federal program or under any State or local program financed in whole or in part with Federal funds.

(Added Pub. L. 111–312, title VII, §728(a), Dec. 17, 2010, 124 Stat. 3317; amended Pub. L. 112–240, title I, §103(d), Jan. 2, 2013, 126 Stat. 2320.)

Currently, federal and state refunds for low-income tax credits are issued in one-time lump sums. Most programs do not consider one-time lump sum payments as income, but with a change to periodic payments, state tax credits would likely begin to count as income in the month received for the purposes of determining eligibility for some means-tested programs subject to federal rules.

Below is the working group's analysis of how a move to periodic payments would impact eligibility for TANF, Food Supplement Benefits, MaineCare, the Child Care Subsidy Program, and Section 8 Housing.

TANF

- There is no express exclusion for any of the state tax credits with regard to TANF as either income or as an asset. Presumably, if state tax credit payments were to be made on a periodic basis, these state funds would be counted as income in the month received thus potentially impacting eligibility or benefit amounts, given Maine's current law. The asset treatment would be no different. Importantly, the state *does* have the authority to exclude these state tax credits as income and assets whether received as a lump sum or as a periodic advance payment. This would require a DHHS regulatory change.

SNAP

- If we moved to periodic payments, state tax credits would likely count as income in the month received. State and local EITC are excluded from income under current law as they are lump sum payments (and therefore required to be treated as assets and excluded for 12 months). But if they are paid periodic, they would no longer be treated as assets and would likely count as income. Both the Property Tax and Sales Tax Fairness payments would count as income in the month received.

7 CFR §273.8 Resource eligibility standards

(12) Earned income tax credits shall be excluded as follows:

(i) A Federal earned income tax credit received either as a lump sum or as payments under section 3507 of the Internal Revenue Code for the month of receipt and the following month for the individual and that individual's spouse.

(ii) Any Federal, State or local earned income tax credit received by any household member shall be excluded for 12 months, provided the household was participating in SNAP at the time of receipt of the earned income tax credit and provided the household participates continuously during that 12-month period. Breaks in participation of one month or less due to administrative reasons, such as delayed recertification or missing or late monthly reports, shall not be considered as nonparticipation in determining the 12-month exclusion.

§ 273.9 Income and deductions

(c) Income exclusions. Only the following items shall be excluded from household income and no other income shall be excluded:

(8) Money received in the form of a nonrecurring lump-sum payment, including, but not limited to, income tax refunds, rebates, or credits; retroactive lump-sum social security, SSI, public assistance, railroad retirement benefits, or other payments; lump-sum insurance settlements; or refunds of security deposits on rental property or utilities. TANF payments made to divert a family from becoming dependent on welfare may be excluded as a nonrecurring lump-sum payment if the payment is not defined as assistance because of the exception for non-recurrent, short-term benefits in 45 CFR 261.31(b)(1). These payments shall be counted as resources in the month received, in accordance with § 273.8(c) unless specifically excluded from consideration as a resource by other Federal laws.

- The income exclusion cited above applies only to payments made on a nonrecurring basis and as a lump-sum. Since credits paid on a periodic basis are not included here, they would not be excluded in the same way.

Medicaid – MAGI

- For the MAGI population, periodic payments of state tax credits would count as income for only those people who itemize on their tax returns. Very few low-income people itemize, so periodic tax credit payments would not count towards most people's income, but would count for a small, but undetermined number of families. For the elderly and disabled, we argue that none of the tax credits would count as income per federal SSI law (see Medicaid – SSI related below).

26 CFR 1.36B-1(e) Premium Tax Credit Definition:

(e) *Household income*—

(1) *In general.* Household income means the sum of—

(i) A taxpayer's modified adjusted gross income (including the modified adjusted gross income of a child for whom an election under section 1(g)(7) is made for the taxable year);

(ii) The aggregate modified adjusted gross income of all other individuals who—

(A) Are included in the taxpayer's family under paragraph (d) of this section; and

(B) Are required to file a return of tax imposed by section 1 for the taxable year.

(2) *Modified adjusted gross income.* Modified adjusted gross income means adjusted gross income (within the meaning of section 62) increased by—

(i) Amounts excluded from gross income under section 911;

(ii) Tax-exempt interest the taxpayer receives or accrues during the taxable year; and

(iii) Social security benefits (within the meaning of section 86(d)) not included in gross income under section 86.

According to an IRS press release associated with its March 2019 Revenue Ruling 2019-11:

> "As in the past, state and local tax refunds are not subject to tax if a taxpayer chose the standard deduction for the year in which the tax was paid. But if a taxpayer itemized deductions for that year on Schedule A, Itemized Deductions, part or all of the refund may be subject to tax, to the extent the taxpayer received a tax benefit from the deduction."

Medicaid – SSI related

- For the purposes of eligibility for SSI and SSI-related MaineCare, arguably, these credits are not counted in Medicaid. But there appears to be uncertainty about the interpretation of this regulation and there are bills pending in Congress to clarify this issue.

20 cfr § 416.1124. Unearned income we do not count.

(c) Other unearned income we do not count. We do not count as unearned income—

(1) Any public agency's refund of taxes on real property or food;

*(2) **Assistance based on need which is wholly funded by a State or one of its political subdivisions**. (For purposes of this rule, an Indian tribe is considered a political subdivision of a State.) **Assistance is based on need when it is provided under a program which uses the amount of your income as one factor to determine your eligibility**. Assistance based on need includes State supplementation of Federal SSI benefits as defined in subpart T of this part but does not include payments under a Federal/State grant program such as Temporary Assistance for Needy Families under title IV-A of the Social Security Act;*

Child Care Subsidy Program

- Under current state law, refundable state tax credits would likely count towards someone's gross income, whether paid annually or on a periodic basis. However, the State has flexibility in defining what income it counts and does not count. Currently, Maine calculates eligibility for CCSP based on gross income, defined below:

10-148 CODE OF MAINE RULES CHAPTER 6 Section 3 (1)

A. Child Eligibility To be eligible for a Child Care Subsidy, at the time of eligibility determination or re-determination a Child shall:

1. Reside with a Family whose Gross Income does not exceed eighty-five percent (85%) of the State's Median Income (SMI) when adjusted for Family size. SMI is based on the most recent SMI data that is published by the Bureau of the Census, for a Family of the same size;

10-148 CODE OF MAINE RULES CHAPTER 6 Section 1 (37)

Gross Income means the sum of all money, earned and unearned, already received, or reasonably anticipated to be received, by all Family members during the service eligibility period. Gross Income is calculated before deductions (such as income taxes, social security taxes, deferred compensation plans, insurance premiums, union dues, etc.) Gross Income does not include fringe benefits. Gross Income includes any Allowable Net Income realized by any member of the Family.

- As noted above, the federal government gives states the authority to decide how they determine eligibility, including what is counted as income, so it is likely a state could exclude state tax credits (whether paid on a periodic basis or annually) from counting as income for eligibility purposes. Thus it appears that the State could determine by rule not to count state tax credits as periodic advance payments.

45 CFR Section 98.20

(b) A grantee or other administering agency may establish eligibility conditions or priority rules in addition to those specified in this section and § 98.46, which shall be described in the Plan pursuant to § 98.16(i)(5), so long as they do not:

(1) Discriminate against children on the basis of race, national origin, ethnic background, sex, religious affiliation, or disability;

(2) Limit parental rights provided under subpart D of this part;

(3) Violate the provisions of this section, § 98.46, or the Plan. In particular, such conditions or priority rules may not be based on a parent's preference for a category of care or type of provider. In addition, such additional conditions or rules may not be based on a parent's choice of a child care certificate; or

(4) Impact eligibility other than at the time of eligibility determination or redetermination.

In the state plan, lead agencies are asked how they define income in section 3.1.3 of their state plans:

"a) How does the Lead Agency define "income" for the purposes of eligibility at the point of determination?"

It is in this section that a state could specify that certain income is disregarded, including periodic income from other public benefits.

Section 8 Housing

- As far as we know, there is nothing in federal law or regulations or in any HUD sub-regulatory guidance that makes clear how refundable state income tax credits should be treated under HUD rental assistance programs. It is clear that federal tax refunds, state and local refunds of property taxes paid on the unit where the family lives, and refunds of taxes paid should all be excluded, but none of that covers the portion of state income tax credits that exceeds taxes actually paid. The distinction between refunds of taxes paid and the portion of state income tax credits that exceeds taxes actually paid is significant because HUD programs count a household's gross income before subtracting out any tax payments. If HUD also counted refunds of taxes the household previously paid, they would be double counting that money. As a result, it's only refunds that exceed the household's previous payments that would be additional income and could potentially be counted.

24 CFR 5.609(c)(15)

(c) Annual income does not include the following:

(15) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit;

- It is likely that currently, annual state refundable income tax credits are typically excluded either because they get lumped in with the excluded refunds above, or under two other exclusions, for (1) "temporary, non-recurring or sporadic income;" and (2) "lump-sum additions to family assets." It is therefore likely that making credit payments more frequent would make it less likely that they would meet these last two exclusions (though HUD is in the process of revising the relevant regulations in ways that affect these exclusions).

There is some speculation that making tax credit payments on a quarterly, as opposed to monthly basis could help clarify that tax credits are different than other types of periodic income, and should not be included in calculations for means-tested programs. This is based on an obscure and small exclusion in the federal SNAP rules, which excludes income received too infrequently or irregularly to be reasonably anticipated in an amount up to $30 per quarter.

7 CFR § 273.9 Income and deductions

(c) ***Income exclusions.*** Only the following items shall be excluded from household income and no other income shall be excluded:

(2) Any income in the certification period which is received too infrequently or irregularly to be reasonably anticipated, but not in excess of $30 in a quarter.

While this gives the state the federal authority to increase the exclusion to $30 at the state level, we believe quarterly payments from tax credits would be frequent and regular enough to be reasonably anticipated (in that they'd come on a quarterly basis), and would therefore not fit within this exclusion.

RECOMMENDATIONS

Duty A. Review the current method of applying for cost-of-living tax credits to determine how applications for those credits may be consolidated into a single, simplified application;

- **The working group does not have a recommendation. The large share of filers choosing electronic filing options leaves us to believe changes to current tax forms are unlikely to have a large impact on ease of filing for the vast majority of Maine tax filers. The working**

group does, however, encourage MRS to explore ways to simplify online forms and processes, and simplify and consolidate current tax forms to the extent possible.

Duty B. Determine the most efficient method for making a single consolidated payment to eligible individuals for all cost-of-living tax credits for which these individuals are eligible;

- **We recommend that only three credits be considered cost of living credits for the purpose of providing consolidated advanced periodic payments. Those credits are the property tax fairness credit, the sales tax fairness credit, and the earned income tax credit which are widely used credits that target low income households. As we do not recommend moving forward with advance payments at this time, we do not recommend action to begin collectively administering these three credits through an advanced consolidated payment.**

  As discussed in the findings section of the report, the charge of this group was to consider the feasibility of consolidating advance payments of several tax credit programs. Maine refunds for income tax credits are currently administered as a single payment after a return is filed.

Duty C. For making consolidated payments, review possible periodic schedules that are administratively feasible and best meet the needs of eligible individuals;

- **The working group has no recommendations. While we find that quarterly payments through direct deposit are most administratively feasible, we do not recommend moving forward with administering the payment due to interactions with eligibility for other low income programs.**

Duty D. Determine methods to facilitate claims for cost-of-living tax credits, including any consolidated payments recommended by the working group, for persons applying for assistance from the Maine Department of Health and Human Services through its automated client eligibility system;

Given the very low uptake rates for state cost of living tax credits, particularly among renters and very low income households, coupled with the unique position DHHS is in to identify and assist tens of thousands potentially eligible claimants, the working group makes the following recommendations:

- **As outlined in the resolve that accompanies our recommendations (Appendix 2), we suggest that Maine Revenue Services collaborate with the Maine Department of Health and Human Services to identify initiatives that will maximize access to state low-income tax credits. We suggest DHHS and MRS work in coordination with stakeholders to examine and report back to the Joint Standing Committee on Taxation on the following:**

  - **Consider other mechanisms, including outreach and alternative filing mechanisms that provide opportunity to significantly increase participation rates;**
  - **Evaluate the extent of increased uptake in the Property Tax Fairness Credit/Sales Tax Fairness Credit that can be reasonably attributed to the Department's mailing of**

letters to Department clients notifying them of their potential eligibility for the credits and referring them to filing assistance.

- **Examine practices to ensure the confidentiality of both tax filers and Department program participants;**
- **Consider the capacity of the agency's respective computer systems to work together in a manner that most effectively facilitates access to low income state tax credits for recipients of services provided through the Department's Automated Client Eligibility System or its successor. For example, by providing the opportunity for applicants applying for assistance from DHHS to use that same portal to apply for low income state tax credits, utilizing DHHS pre-verified data, as appropriate, and instructing the applicant to finalize the application for submission to MRS.**
- **Identify any costs, including but not limited to personnel costs and those associated with upgrading technology, deemed necessary to substantially improve access to low income tax credits.**

The working group recognizes that DHHS and MRS are working together to send a letter to DHHS clients potentially eligible for the PTFC, but we are concerned that a referral alone is not enough to move the needle on the alarmingly low PTFC uptake rates, particularly among non-filing renters. Through this resolve, we encourage the Department and MRS to assess the impact this mailing has on uptake rates and use that information to inform their future plans.

In addition, as DHHS and MRS are both redesigning their respective computer systems, the two state agencies are in an ideal position to come up with a plan outlining how the two systems will work together to facilitate access to low-income state tax credits in a way that ensures the confidentiality of both tax filers and Department program participants. While we recognize that the technology and data sharing agreements are not currently in place to integrate low-income tax credit applications into DHHS' online benefits system, we encourage DHHS and MRS to come up with a plan for how this could be achieved in the future. Because we believe this process can happen electronically, it would not create an additional burden for DHHS eligibility specialists, nor do we intend that to be the result.

Relatedly, as the Department creates new tools, such as the online benefits cliff calculator – which will include programs that serve low-income families, such as the federal EITC – the working group encourages the Department to also include the state EITC, the PTFC/STFC, and the Child and Dependent Care Tax Credit.

- **As outlined in suggested legislation accompanying this report (Appendix 3), the working group suggests requiring any administrator of the ASPIRE program to notify clients about the existence and benefit of *all* low-income tax credits – including *state* tax credits – and refer people to resources that could assist them in applying for these benefits.**

- **Also proposed in accompanying legislation (Appendix 4), the working group recommends an appropriation in the amount of $125,000 in State Fiscal Year 2021 to ensure continuation of services provided by CA$H Maine to assist low-income Mainers with tax preparation, including access to federal and state cost-of-living tax credits. CA$H Maine provides free tax preparation for low income Mainers to file their state and federal tax returns, but their funding from the IRS is limited to federal filing goals. Nonetheless, these sites still assist Mainers with filing the state EITC, sales tax fairness credit, and property tax fairness credit for those who do not need to file federal returns. For the past 6 years, CA$H Maine has supported their state tax credit work along with the coordination of the 10 CA$H Maine coalitions, including providing outreach and financial education, with funding from the John T. Gorman Foundation. This funding will end December 31, 2020 and will reduce their ability to continue this important work.**

  State funding would replace funds that CA$H Maine is losing to enable them to continue to provide the same amount of services to assist low income Mainers with state tax filings for refundable credits. CA$H Maine is the only group providing this type of targeted outreach, financial education, and support for low-income Mainers. (As noted in this report, many paid tax preparation companies reportedly fail to screen people for state level tax credits and offer predatory refund anticipation loans.) Given the low uptake rate for state-level tax credits, particularly among people with low-income, continued funding for CASH Maine is critical for making sure people with low-incomes receive the tax credits for which they are eligible.

Duty E. Examine mechanisms for providing any advance consolidated payment of cost-of-living tax credits recommended by the working group to persons receiving assistance through means-tested assistance programs, including, but not limited to, the federal Medicaid program, the federal supplemental nutrition assistance program administered by the State pursuant to Title 22, section 3104 or the Temporary Assistance for Needy Families program pursuant to Title 22, chapter 1053-B in a manner that will not reduce assistance from these programs solely as a result of receiving the advance consolidated payment; and

- **Given the risks posed to people receiving or eligible for public benefits, the working group recommends the state refrain from taking any steps towards creating a periodic payment option at this time. Under current law these lump sum, year-end credits do not impact eligibility for most public programs. However, should they be received as periodic advance payments in many instances they would impact eligibility or the amount of assistance. Until federal law is changed to clarify that state tax credits are excluded as income for the purpose of determining eligibility for safety net programs, there is no way to create a periodic payment system in a manner that will not reduce at least some amounts of assistance for most.**

- **While the working group does not recommend the state pursue the periodic payment option at this time, we encourage the state to reassess this option as soon as action has been taken at the federal level to exempt tax credits as income for the purposes of calculating benefit eligibility. When the state is in a position to reassess the periodic payment option, we encourage the state to look to the findings of this report to find ways to best way to implement periodic payments and reconvene a working group to assist with this effort.**

Duty F. Review administrative policies and practices to prevent overpayments in advance periodic payments of cost-of-living tax credits and review practices to allow for payment adjustments to reflect changes to income throughout the year.

- **The working group has no recommendations, but the findings of this report are useful to future efforts to explore periodic payments for low income Mainers.**

APPENDICES

Appendix 1: Demographic information for tax year 2017 full-year resident ($million)

	PTFC		STFC		EITC		Child care	
	$	#	$	#	$	#	$	#
Total	$15.16	53,113	$26.09	195,577	$10.11	91,013	$4.16	27,105
			Filing status and dependents					
Single	$7.96	28,899	$10.62	100,147	$0.37	20,681		
Head of household \1	$3.18	10,989	$7.39	44,689	$6.50	45,307	$1.17	8,235
Married with dependent	$1.61	5,071	$3.79	21,085	$3.17	20,779	$2.99	18,870
Married no dependent	$2.41	8,154	$4.29	29,656	$0.09	4,246		
			County					
Androscoggin	$1.27	4,603	$2.37	17,239	$1.11	8,885	$0.393	2,444
Aroostook	$0.48	1,990	$1.57	11,398	$0.58	5,173	$0.128	765
Cumberland	$3.46	11,514	$4.35	34,276	$1.57	15,180	$1.219	7,879
Franklin	$0.30	1,135	$0.66	4,748	$0.26	2,227	$0.062	392
Hancock	$0.56	1,961	$1.10	8,191	$0.41	3,785	$0.136	952
Kennebec	$1.27	4,753	$2.59	19,430	$0.97	8,593	$0.426	2,682
Knox	$0.68	2,210	$0.85	6,372	$0.31	2,858	$0.117	713
Lincoln	$0.46	1,518	$0.70	5,244	$0.27	2,537	$0.091	573
Oxford	$0.70	2,460	$1.32	9,569	$0.55	4,770	$0.124	859
Penobscot	$1.29	5,023	$3.13	23,291	$1.16	10,480	$0.363	2,464
Piscataquis	$0.15	573	$0.39	2,819	$0.16	1,332	$0.024	179
Sagadahoc	$0.45	1,504	$0.61	4,699	$0.24	2,217	$0.118	783
Somerset	$0.46	1,825	$1.23	8,798	$0.52	4,373	$0.099	673
Waldo	$0.57	1,917	$0.91	6,623	$0.36	3,228	$0.099	594
Washington	$0.29	1,011	$0.71	5,022	$0.34	2,813	$0.041	271
York	$2.67	8,807	$3.24	25,130	$1.20	11,440	$0.698	4,711
Outside of Maine	$0.09	309	$0.35	2,728	$0.11	1,122	$0.027	171
			Filing Method					
Paper	$3.36	10,515	$3.10	23,997	$0.56	6,255	$0.37	2,410
I-File	$0.76	2,466	$0.80	6,043	$0.19	1,859	$0.10	655
E-File	$11.03	40,132	$22.18	165,537	$9.37	82,899	$3.69	24,040
			Age					
Under 65	$10.12	35,848	$21.85	160,756	$9.96	88,750	$4.16	27,043
65 or older \2	$5.03	17,265	$4.23	34,821	$0.15	2,263	$0.01	62
			Income = Total income on Sch PTFC for PTFC/STFC and Federal AGI for EITC and CCC					
<= $10,000	$3.65	10,269	$4.86	34,687	$1.28	23,850		
$10,000 <= $20,000	$5.85	17,667	$9.31	64,452	$3.82	27,289	$0.02	387
$20,000 <= $30,000	$3.87	14,916	$6.48	55,167	$3.25	18,960	$0.34	2,449
$30,000 <= $40,000	$1.48	7,718	$3.91	24,689	$1.43	14,784	$0.39	2,485
Over $40,0000	$0.31	2,543	$1.53	16,582	$0.33	6,130	$3.41	21,784

\1 Includes single with more than one exemption

\2 Determined by the age of the older spouse for married taxpayers.

Appendix 2. Resolve relating to Collaboration between Maine Revenue Services and the Maine Department of Health and Human Services

Sec. 1. Collaboration between Maine Revenue Services and the Maine Department of Health and Human Services. Resolved, that considering the very low participation rates for several of Maine's low income tax credits, particularly among renters, Maine Revenue Services shall collaborate with the Maine Department of Health and Human Services to examine each of the duties set forth in this paragraph to identify initiatives that will maximize access to state low-income tax credits, including the Property Tax Fairness Credit, the Sales Tax Fairness Credit, and the Earned Income Tax Credit, for recipients of services from the Department. The agencies shall:

1. Consider other mechanisms, including outreach and alternative filing mechanisms that provide opportunity to significantly increase participation rates;
2. Evaluate the extent of increased uptake in the Property Tax Fairness Credit/Sales Tax Fairness Credit that can be reasonably attributed to the Department's mailing of letters to Department clients notifying them of their potential eligibility for the credits and referring them to filing assistance.
3. Examine practices to ensure the confidentiality of both tax filers and Department program participants;
4. Consider the capacity of the agency's respective computer systems to work together in a manner that most effectively facilitates access to low income state tax credits for recipients of services provided through the Department's Automated Client Eligibility System or its successor. For example, by providing the opportunity for applicants applying for assistance from DHHS to use that same portal to apply for low income state tax credits, utilizing DHHS pre-verified data, as appropriate, and instructing the applicant to finalize the application for submission to MRS.
5. Identify any costs, including but not limited to personnel costs and those associated with upgrading technology, deemed necessary to substantially improve access to low income tax credits.

Section 2. Stakeholder involvement. Resolved that Maine Revenue Services and the Department shall solicit input from stakeholders representing persons with low incomes related to its collaboration under Section 1, and otherwise related to how to most effectively increase uptake rates for low income state tax credits.

Section 3. Report. Resolved that Maine Revenue Services shall submit a report, including any recommended legislation, to the Joint Standing Committee on Taxation no later than December 15, 2020 describing how the two agencies will maximize access to state tax credits for recipients of services from the Department, including the ways in which the technology currently used and designed by each agency can work together to facilitate access. If additional resources are needed to establish systems that would more effectively address the goal of this Resolve, the report shall provide information regarding what is needed, including estimates of the cost involved. The joint standing committee may submit legislation related to the report to the First Regular Session of the 130th Legislature.

Appendix 3. Amendment requiring DHHS to advise applicants and recipients of TANF regarding federal *and* state tax credits.

MRS 22

§3763. Program requirements

1. Family contract. During the TANF orientation process, a representative of the department and the TANF recipient shall enter into a family contract. The family contract must state the responsibilities of the parties to the agreement including, but not limited to, cooperation in child support enforcement and determination of paternity, the requirements of the ASPIRE-TANF program and referral to parenting activities and health care services. Except as provided in section 3762, subsection 4, refusal to sign the family contract or to abide by the provisions of the contract, except for referral to parenting activities and health care services, will result in termination of benefits under subsection 1-A. Failure to comply with referrals to parenting activities or health care services without good cause will result in a review and evaluation of the reason for noncompliance by the representative of the department and may result in sanctions. Written copies of the family contract and a notice of the right to a fair hearing must be given to the individual. The family contract must be amended in accordance with section 3788 when a participant enters the ASPIRE-TANF program and when participation review occurs.

Benefits that have been terminated under subsection 1-A must be restored once the adult recipient signs a new family contract and complies with its provisions.

[PL 2013, c. 588, Pt. D, §4 (AMD).]

1-A. Partial and full termination of benefits. Benefits under this chapter must be terminated by the department under the provisions of subsection 1 and sections 3785 and 3785-A as follows:

A. For a first failure to meet the conditions of a family contract, termination of benefits applies to the adult recipient; [PL 2011, c. 380, Pt. PP, §4 (NEW).]

B. For a first failure to meet the conditions of a family contract for which termination of benefits under paragraph A lasts for longer than 90 days and for a 2nd and subsequent violation, termination of benefits applies to the adult recipient and the full family unit; and [PL 2011, c. 380, Pt. PP, §4 (NEW).]

C. Prior to the implementation of a full family unit sanction, the department shall offer the adult recipient an opportunity to claim good cause for noncompliance as described in section 3785. [PL 2011, c. 380, Pt. PP, §4 (NEW).]

Benefits that have been terminated under this subsection must be restored once the adult recipient signs a new contract under subsection 1 and complies with the provisions of the family contract.

[PL 2011, c. 380, Pt. PP, §4 (NEW).]

2. Participation. A recipient of TANF shall participate in an education, training or employment program pursuant to this chapter unless exempt under paragraph A, B or C. The following individuals are exempt:

A. A recipient who is the single custodial parent or a caretaker relative of a child under one year of age and is personally providing care for that child. This exemption is limited to no more than 12 months per single custodial parent or caretaker relative; [PL 1997, c. 530, Pt. A, §16 (NEW).]

B. A recipient who is not a parent or a caretaker relative; and [PL 1997, c. 530, Pt. A, §16 (NEW).]

C. A recipient who is a VISTA volunteer under the federal Domestic Volunteer Service Act of 1973. [PL 1997, c. 530, Pt. A, §16 (NEW).]

[PL 1997, c. 530, Pt. A, §16 (NEW).]

3. Custodial parents not yet 20 years of age. A custodial parent under 20 years of age who is a recipient of TANF and has not completed high school or its equivalent shall participate in the ASPIRE-TANF program regardless of the age of the youngest child and attend courses to complete high school, with an emphasis on education in a traditional high school setting.

[PL 1997, c. 530, Pt. A, §16 (NEW).]

4. Households headed by minor parents. The following requirements apply to a custodial parent who is under 18 years of age and is not married:

A. The family must reside in the household of a parent, legal guardian or other adult relative of that minor parent or in an adult-supervised supportive living arrangement unless:

(1) The minor parent does not have a living parent or legal guardian whose whereabouts are known;

(2) A living parent or legal guardian of the minor parent does not allow the minor parent to live in the parent's or guardian's home;

(3) The minor parent lived apart from the minor's own parent or legal guardian for a period of at least one year before the birth of the dependent child or the minor parent's application for TANF;

(4) The physical or emotional health or safety of the minor parent or dependent child would be jeopardized if that minor parent or dependent child resided in the same residence with the minor parent's parent or legal guardian; or

(5) There exists other good cause, as defined by rule adopted by the department; and [PL 1997, c. 530, Pt. A, §16 (NEW).]

B. TANF benefits must be distributed in the form of vouchers. [PL 1997, c. 530, Pt. A, §16 (NEW).]

[PL 1997, c. 530, Pt. A, §16 (NEW).]

5. Home visit. The department may implement a home visit program in which a representative of the department may visit the homes of all applicants for and recipients of TANF for the following purposes:

A. To review the family contract; [PL 1997, c. 530, Pt. A, §16 (NEW).]

B. To reinforce the reporting responsibilities of the family, including child support enforcement; [PL 1997, c. 530, Pt. A, §16 (NEW).]

C. To verify information provided at the time of application, including checking social security numbers; and [PL 1997, c. 530, Pt. A, §16 (NEW).]

D. To request and receive any additional information. [PL 1997, c. 530, Pt. A, §16 (NEW).]

[PL 1997, c. 530, Pt. A, §16 (NEW).]

6. Substantiation of eligibility. The department may appropriately substantiate the facts supporting eligibility stated in any application for TANF assistance. The department shall adopt rules for substantiating relevant facts. The rules must provide for assisting the applicant in obtaining substantiating information when necessary.

[PL 1997, c. 530, Pt. A, §16 (NEW).]

7. ~~Earned income~~ Federal and state low-income tax credits. The department shall advise applicants and recipients of Temporary Assistance for Needy Families regarding ~~the~~ federal and state tax credits, including the federal and state earned income tax credits, the state Property Tax Fairness Credit, Sales Tax Fairness Credit, Child and Dependent Care credits, and any other state or federal refundable tax credits targeted to people with low-income, and refer people to resources that could assist them in applying for these benefits. ~~including the opportunity to receive it as an advanced payment.~~

[PL 1997, c. 530, Pt. A, §16 (NEW).]

8. Alternative aid. The department shall provide alternative aid to applicants who seek short-term assistance in order to obtain or retain employment. The applicants must meet the eligibility requirements established by rule adopted pursuant to section 3762, subsection 3, paragraph A. The alternative aid may not exceed 3 times the value of the monthly TANF grant for which the applicant's family is eligible. An eligible applicant may receive alternative aid no more than once during any 12-month period. If the family reapplies for TANF within 3 months of receiving alternative aid, the family shall repay any alternative aid received in excess of the amount that the family would have received on TANF. The method of repayment must be the same as that used for the repayment of unintentional overpayments in the TANF program.

[PL 2005, c. 522, §1 (AMD).]

9. Emergency assistance. The department shall establish and operate a program of emergency assistance to needy families with children. This program must provide benefits to needy families with children in emergency situations in which the family is deprived of the basic necessities essential to its support, including but not limited to, fire and other natural disasters, terminations of utility service or lack of adequate shelter.

A. In determining what constitutes an emergency with respect to utility terminations, the department shall grant assistance when an otherwise qualified family has received a disconnection notice and has exhausted their ability to negotiate and pay the terms of a reasonable payment arrangement. [PL 1997, c. 530, Pt. A, §16 (NEW).]

B. The program may not be used to supplant local responsibility for operating or funding a general assistance program. [PL 1997, c. 530, Pt. A, §16 (NEW).]

C. The department may not expend more than $750,000 annually of state general assistance funds for the purposes of covering the cost of services set out in this subsection. [PL 1997, c. 530, Pt. A, §16 (NEW).]

[PL 1997, c. 530, Pt. A, §16 (NEW).]

10. Home survival skills. The department shall provide and may contract with public and private nonprofit agencies to provide instruction and experiential education for TANF recipients in nutrition, food preparation and home and money management.

[PL 1997, c. 530, Pt. A, §16 (NEW).]

11. Restrictions on use of electronic benefits transfer system. A recipient of benefits under this chapter may not expend those benefits using the electronic benefits transfer system established in section 22 for the purchase of the following:

A. Tobacco products, as defined in section 1551, subsection 3; [PL 2015, c. 484, §1 (NEW).]

B. Imitation liquor or liquor, as defined in Title 28-A, section 2, subsections 13 and 16, respectively; [PL 2015, c. 484, §1 (NEW).]

C. Gambling activity, as defined in Title 8, section 1001, subsection 15; [PL 2015, c. 484, §1 (NEW).]

D. Lotteries conducted by the State pursuant to Title 8, chapter 14-A or the Tri-State Lotto Commission pursuant to Title 8, chapter 16; [PL 2015, c. 484, §1 (NEW).]

E. Bail, as defined by Title 15, section 1003, subsection 1; [PL 2015, c. 484, §1 (NEW).]

F. Firearms or ammunition; [PL 2015, c. 484, §1 (NEW).]

G. Vacation or travel services; [PL 2015, c. 484, §1 (NEW).]

H. Publications, services or entertainment that contain or promote obscene matter. For purposes of this paragraph, "obscene matter" has the same meaning as in Title 17, section 2911, subsection 1, paragraph D; [PL 2017, c. 208, §1 (AMD).]

I. Tattoos, as defined by Title 32, section 4201, or body art; or [PL 2017, c. 208, §1 (AMD).]

J. Adult use marijuana and adult use marijuana products, as defined by Title 28-B, section 102. [PL 2017, c. 409, Pt. A, §4 (AMD).]

A person who violates this subsection is subject to those penalties specified in subsection 12.

[PL 2017, c. 409, Pt. A, §4 (AMD).]

12. Penalties. When the department determines based on clear and convincing documentary evidence that a recipient of benefits under this chapter has knowingly purchased a product or service in violation of subsection 11, that recipient is deemed to have received an overpayment in the amount of the prohibited purchase, which may be recovered by the department pursuant to chapter 1055-A. The recipient is also subject to the following additional penalties:

A. For the 1st offense, the recipient may be disqualified from receiving benefits under this chapter for a period that does not exceed 3 months; [PL 2015, c. 484, §1 (NEW).]

B. For the 2nd offense, the recipient may be disqualified from receiving benefits under this chapter for a period that does not exceed 12 months; and [PL 2015, c. 484, §1 (NEW).]

C. For the 3rd and subsequent offenses, the recipient may be disqualified from receiving benefits under this chapter for a period that does not exceed 24 months. [PL 2015, c. 484, §1 (NEW).]

The department shall initiate an administrative hearing for a recipient of benefits who the department has determined has violated subsection 11. The notice and hearing must be conducted consistent with the department rules governing notice and hearing required for an intentional program violation.

Appendix 4. An Act to Provide funds for tax preparation for low-income Mainers

An Act to Provide funds for tax preparation for low-income Mainers

Be it enacted by the People of the State of Maine as follows:

Section 1. Appropriations and allocations. The following appropriations and allocations are made.

New Ventures Maine Z169

	2019-20	2020-21
Initiative: Provides funds to ensure continuation of services provided by the CASH Maine to assist low-income Mainers with tax preparation, including access to federal and state cost-of-living tax credits.		
General Fund All other	$0	**$125,000**
FUND TOTAL		
General Fund All other	$0	$125,000

Summary

This bill appropriates funds to the CASH Maine to assist low-income Mainers with tax preparation, including access to federal and state cost-of-living tax credits, and provide outreach and education about financial programs and resources. These funds replace funds that the CASH Maine is losing to enable them to continue to provide the same amount of services.