Prepared by DAFS, 2/3/2026

Overview of Tax Provisions in the Governor's Supplemental Budget

I - Property Tax Modernization and Simplification

- **Consolidate the Existing Homestead, Veterans, and Blind Exemption into One-Tiered Homestead Exemption.**
  - Base Homestead Exemption is $25,000, with additional tiers for blind persons and veterans. Effective for property tax years beginning on or after April 1, 2027
  - Repeals existing veterans and blind person exemption.
  - New veterans' additional exemption eliminates complicated service period and age/disability requirements that exist in current veterans' exemption (<u>all veterans are eligible for at least some exemption</u>). Based on **LD 888 – "An Act to Expand Property Tax Relief for Veterans and Survivors of Veterans" sponsored by Rep. Hymes** (carried over on the AFA Table)
  - Levels of additional exemption for veterans depending on their age and disability ratings
  - New blind person exemption of $5,000
  - Better organizes administrative provisions for the homestead exemption.
  - Adds municipal reimbursement for all veterans and blind persons exemption tier (since they are now part of homestead) at the existing homestead reimbursement rate (76%).
  - Directs the State Tax Assessor to publish updated guidance implementing and explaining the consolidated homestead exemption, including the transition and continuation of eligibility provisions.

- **Sunset the Business Equipment Tax Reimbursement (BETR) Program**
  - Reduces BETR reimbursement by 50% for the application period that begins on August 1, 2026 and sunsets the BETR program at the conclusion of the August 1, 2026, program year. MRS will make the final reimbursements under the program on or before November 1, 2027.
  - BETR reimbursement applies to eligible property placed into service between April 1, 1995 and April 1, 2007. The state reimburses businesses for 100% of property taxes paid in years 1-12, 75% in year 13, with the percentage decreasing by 5 percentage points until it reaches 50% reimbursement in years 18 and beyond.
  - Non-retail property first placed into service on or before April 1, 2007 is grandfathered into the BETR program and non-retail property first placed into service after April 1, 2007 is exempt under the BETE program. Retail property located at a "retail sales facility" and first placed into service after April 1, 2007 remains eligible for BETR reimbursement.
  - The amount of annual BETR reimbursement is heavily weighted to grandfathered non-retail property placed into service on or before April 1, 2007. The combination of depreciation and the decrease in the reimbursement rate have reduced the cost of the BETR program from $24.9 million in FY19 to a forecast of $16.8 million in FY26. From a tax policy perspective, there's no need to further reimburse property taxes for personal property placed into service over 18 years ago. These businesses will continue to benefit from the full exemption of BETE eligible property. Furthermore, many of the Governor's conformity proposals, the Dirigo Business Investment Program, and other state tax expenditures will continue to benefit these businesses.

  - The annual amount of BETR reimbursement for retail property in a “retail sales facility” is relatively small, and there is no economic development argument to incentivize investment in retail sales facility personal property. Retailers with separate structures that are used as a manufacturing, warehouse, or call center facility are eligible for investments in eligible personal property through the BETE program.

<u>II – Conformity to Federal Public Law No. 119-21 (The One Big Beautiful Bill Act – OBBBA)</u>

- **Direct Conformity to Federal Adjusted Gross Income (FAGI) and Federal Taxable Income (FTI) as of December 31, 2025**
  - Conforming to FAGI, FTI, and other direct linkage provisions in the federal Internal Revenue Code offers substantial advantages to taxpayers and the State. For taxpayers, filing their Maine income tax returns is relatively simple if Maine and federal law match. For the State, conforming with these federal definitions greatly simplifies tax administration, since Maine looks to the statutory, case law, and regulatory authority developed at the federal level, rather than having to develop and administer its own.
  - Governor’s budget proposes to conform to almost all the <u>direct</u> conformity items in the OBBBA in tax year 2026 and ongoing.
  - The Governor’s budget proposes to adopt and enact the Governor’s IRC Conformity direction for tax year 2025. These directions were previously presented to the AFA and TAX Committees and are currently being utilized for the underway tax filing season.
  - Conformity to business provisions where direct conformity would have outsized immediate budgetary impacts, the budget proposes ways to phase in conformity.
  - Phasing in R&D for larger businesses balances the importance of supporting R&D in the state against the substantial cost of immediate conformity.
    - For small R&D businesses, defined by the OBBBA as businesses with annual gross receipts of $31 million or less, the budget proposes to fully conform to the federal R&D tax changes.
    - For large businesses, the budget proposes to phase up to full conformity between tax years 2026 and 2030. These businesses will still be eligible to deduct the same amount, but over multiple years instead of all at once and will receive a tax break relative to pre-OBBBA law during the phase in period.
  - The budget continues the state’s policy of decoupling from bonus depreciation and the new 100% depreciation election for real property used for producing tangible personal property. Maine’s Dirigo Business Investment Program already provides tax benefits for new capital investments in Maine.

- **Indirect Conformity Items**
  - Below the line (FAGI) deductions that are not automatically conformed to through the Title 36 Maine Revised Statutes date change linking to the Internal Revenue Code.
    - Items Governor proposes conformity - Standard Deduction & charitable contributions
      - Standard Deduction – proposes to partially conform for tax year 2026 and then fully conform beginning in tax year 2027. The annual cost of full conformity is

over $30 million per year. This provides broad permanent tax relief to an estimated 445,000 full-year resident taxpayers.

- Charitable Deduction for Nonitemizers – conforms to the new charitable deduction for nonitemizers by allowing 50% of federal deduction in tax year 2027 and full conformity starting in tax year 2028. When fully phased in this conformity item is estimated to reduce taxes by $10 million per year.

▪ Items Governor proposes nonconformity - Tips, Overtime, Car Loan Interest and Senior Exemption.

- Tips, Overtime, and Car Loan Interest – All of these items will apply to narrow groups of taxpayers.
    - Inequitable tax relief for taxpayers with certain types of income or expenses.
    - Even within certain professions there will be inequities. Example, restaurants; front of the house staff (have tips) vs. back of the house staff (little or no tips)
    - Not permanent. These tax expenditures are scheduled to expire at the end of tax year 2028, conforming to these items will create state budget uncertainty as the end of 2028 approaches.
    - Governor's Affordability Checks will provide immediate tax relief of equal or greater value.
- Senior Exemption – Purpose of this item was to offset the taxation of social security benefits at the federal level. Senate reconciliation rules prevented the inclusion of provisions that impact social security which led to Congress substituting in a personal exemption for seniors.
    - Maine has never taxed social security benefits; therefore, there's no need for the senior deduction at the state level.
    - Unlike the federal government, Maine retained the personal exemption for all taxpayers regardless of age. In tax year 2026 the personal exemption is $5,300 ($10,600 for joint filers).
    - In recent years the state has significantly increased the maximum pension deduction amount from $10,000 to over $48,000 in tax year 2025.

<u>III – Pass-Through Entity Tax (PTE</u>

- Governor's budget proposes to establish a so called "SALT cap workaround" beginning tax year 2026 to provide Maine taxpayers relief from the now permanent federal SALT deduction limitation.
    - The proposal would align Maine with the vast majority of other states with individual income taxes that currently offer similar SALT cap workarounds.
    - TAX Committee carried over and is currently working **LD 191 – "An Act to Support Maine Businesses by Establishing a Pass-through Entity Tax and Tax Credit**"

- The proposal would benefit Maine pass-through entity owners while providing revenue to the State.

    - The workaround is comprised of three parts:
        - An elective entity level income tax on pass-through entities.
        - A corresponding individual income tax credit for 90% of the individual's distributive share of the PTE tax.
        - An expanded credit for income taxes paid to other taxing jurisdictions to now include the individual's distributive share of a substantially similar tax imposed on a PTE by the other jurisdiction, so long as the other jurisdiction imposes a substantially similar income tax.