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Testimony of the Manufacturers Association of Maine

In Support of Including an Improved Pass-Through Entity Tax Credit in Part N in the Governor's 2026 Supplemental Budget

Sen. Rotundo, Rep. Gattine and distinguished Members of the Joint Standing Committee on Appropriations and Financial Affairs, Senator Grohoski and Rep. Sayre, and Members of the Joint Standing Committee on Taxation:

My name is John E. Hadwen, CPA, Tax Principal at Albin Randall & Bennett, and I am offering this testimony on behalf of the Manufacturers Association of Maine (MAME). Thank you for the opportunity to testify in support of including a Pass-Through Entity Tax (PTET) credit in Governor Mills' 2026 Supplemental Budget, and for considering targeted improvements that will ensure this policy fully achieves its intended purpose: strengthening Maine's competitiveness while protecting state revenues.

Support for PTET Inclusion

MAME strongly supports the Governor's decision to include a PTET in the supplemental budget. This represents meaningful progress after several years of discussion and collaboration among the business community, tax practitioners, Maine Revenue Services, and the Legislature. PTET is now a well-established policy tool across the country, adopted by 36 states ranging from Minnesota to Mississippi. The policy mitigates the federal SALT cap and levels the playing field for Maine businesses. It generates new revenue for Maine while at the same time lowering the overall tax burden for Maine businesses. It's as good a win-win as you can get in tax policy.

We also ask that the Supplemental Budget's PTET language be refined to ensure it works as effectively as possible for Maine businesses and for the State.

Request to Adopt the LD 191 Sponsor's Amendment

We respectfully ask the Committee to consider replacing the Governor's PTET language with the sponsor's amendment to LD 191, which was drafted by the Maine Society of Certified Public Accountants (MSCPA) in close collaboration with MAME. This amendment reflects extensive technical input and aligns Maine's PTET structure with best practices nationally.¹

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We would highlight two critical areas where the LD 191 amendment improves upon the Governor’s proposal.

1. PTET Tax Base: Conformity with the Individual Income Tax Base

Under the Supplemental Budget proposal, the PTET base includes only Maine-source income of the pass-through entity. By contrast, the LD 191 amendment defines the PTET base to conform to the Maine individual and fiduciary income tax base. Specifically:

- 100% of a Maine resident’s distributive share income is included, regardless of where the income is earned; and
- Only the Maine-source portion of a nonresident’s distributive share income is included.

This approach delivers **three important benefits**:

First, it generates **more revenue** for the State. For multi-state pass-through entities, limiting the base to Maine-source income leaves significant revenue on the table. The LD 191 amendment captures income that is already subject to Maine resident taxation, improving overall collections without increasing rates.

Second, it provides a **larger federal tax benefit to Maine residents**. A broader PTET base results in a larger federal deduction at the entity level. Those federal tax savings stay in the hands of Maine residents and can be reinvested directly into Maine communities, payroll, equipment, and expansion.

Third, it **aligns Maine with the majority of PTET jurisdictions**. Most states structure their PTET to conform with their resident income tax base. The Governor’s proposal would put Maine resident owners at a disadvantage compared to their peers in other states, undermining the very competitiveness goals PTET is meant to address.

2. Credit for New Hampshire Business Profits Tax (BPT)

The LD 191 amendment also provides clear and necessary treatment of taxes paid to other jurisdictions—specifically by **allowing a credit for the New Hampshire Business Profits Tax (BPT)**. The Supplemental Budget proposal does not.

This distinction matters for two reasons:

First, competitiveness. Disallowing the credit places Maine residents at a disadvantage compared to neighboring states. For example, Massachusetts residents are allowed a credit for New Hampshire BPT paid. Maine businesses should not be treated less favorably than their regional competitors simply because of where they reside.



they reside.

Second, sound tax policy. There is no policy rationale for denying a credit for BPT imposed on pass-through entities. Maine currently allows a resident credit when BPT is paid by a sole proprietorship. If that same business adds one owner and becomes a partnership, the credit disappears under the Governor's proposal. The LD 191 amendment corrects this inconsistency and ensures neutral treatment across business structures.

Opposition of Part O repeal of the Business Equipment Tax Policy – BETR and BETE

In addition to PTET, MAME urges the Committee to carefully consider the future of Maine's Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs, particularly in light of the proposal to repeal BETR.

Numerous legacy Maine manufacturers made long-term, capital-intensive investments in reliance on BETR as part of the State's tax policy framework. These investments include advanced manufacturing equipment, automation, and technology infrastructure—precisely the types of investments needed to remain competitive in national and global markets.

If the goal is to simplify and modernize Maine's business equipment tax policy, we respectfully suggest that the Committee **consider merging BETR into the BETE program**, rather than outright repeal.

The BETE program is a 100% property tax exemption for eligible business equipment that was first subject to tax in Maine on or after April 1, 2008. BETE has largely replaced BETR for new investment and allows businesses to avoid paying assessed property taxes up front and waiting for reimbursement, while providing an exemption with no time limit.²

A thoughtful transition that incorporates remaining BETR-eligible property into BETE would provide continuity, honor past investment decisions, and maintain Maine's commitment to encouraging capital investment—particularly in manufacturing, where investment in technology is the backbone of productivity, workforce retention, and long-term competitiveness.

Research and Development Conformity

MAME respectfully urges the Committee to include **conformity for all businesses with the federal tax code allowing businesses to expense research and development costs**.

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Under current federal law, businesses can now fully expense research and experimental expenditures. When states decouple from federal treatment, it increases compliance costs, reduces cash flow, and discourages investment—particularly for manufacturers and technology-driven firms.

For Maine manufacturers, research and development is not abstract or theoretical. It includes product design, process improvement, automation, advanced materials, and energy efficiency—investments that directly support productivity, competitiveness, and workforce retention. The inability to expense these costs immediately ties up capital that would otherwise be reinvested in equipment, wages, and job creation here in Maine.

Conforming Maine’s tax code for the 2025 tax year to federal treatment for research and development expensing would provide **certainty, simplicity, and neutrality**. It would reduce administrative burdens, align Maine with other states competing for investment, and send a clear signal that Maine supports innovation and modern manufacturing.

We respectfully ask the Committee to view federal conformity for R&D expensing for all business sizes as complementary to PTET and other pro-growth policies under consideration. Together, these measures help ensure that Maine remains a place where manufacturers can invest, innovate, and grow.

Conclusion

In closing, the Manufacturers Association of Maine strongly supports the inclusion of PTET in the Governor’s 2026 Supplemental Budget. At the same time, we respectfully urge the Committee to:

1. Replace the Supplemental Budget’s PTET language with the LD 191 sponsor’s amendment drafted by MSCPA and MAME;
2. Consider a policy approach that merges BETR into BETE, preserving stability for existing investments while modernizing Maine’s business equipment tax structure; and
3. Conform with the federal tax code allowing businesses to expense research and development costs.

With these adjustments, Maine can adopt tax policies that are fair, competitive, administrable, and fiscally responsible—while continuing to send a clear signal that Maine supports investment, growth, and jobs.

Thank you for your time and consideration. I would be happy to answer any questions.

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Endnotes

1. Maine Society of Certified Public Accountants, *Sponsor's Amendment to LD 191: An Act to Support Maine Businesses Through a Pass-Through Entity Tax and Tax Credit* (Dec. 30, 2025).
2. Maine Department of Economic and Community Development & Maine Revenue Services, *Business Equipment Tax Exemption (BETE) Program*, describing BETE as a 100% property tax exemption for eligible property first subject to tax in Maine on or after April 1, 2008, and noting that BETE has largely replaced BETR for new investment, <https://www.maine.gov/decd/business-development/financial-incentives-resources/business-equipment-tax-relief-programs>.

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