

Testimony Neither for Nor Against LD 2010, An Act Updating References to the United States Internal Revenue Code of 1986 Contained in the Maine Revised Statutes

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Senator Grohoski, Representative Sayre, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy.

The changes made by HR 1, the federal bill also known as the “One Big Beautiful Bill Act,” disproportionately benefit those with wealth and big corporations, while gutting our social safety net. We urge the Committee to reject these changes and chart a different path for Maine, one that makes investments in its people, not the wealthy few.

The benefits of HR 1 are skewed to the wealthy and larger businesses.

After giving away millions in new subsidies to big businesses last year,¹ we urge this Committee to oppose even more tax cuts that will do little to benefit Maine’s economy but instead further increase income inequality in our state. We are opposed to conforming with any tax cuts for businesses in HR 1, which would primarily benefit businesses that already have the wealth to make expensive up-front capital investments with delayed tax benefits.

The accelerated R&D deduction included by the Governor in the supplemental budget, for example, would allow businesses to immediately expense 100% of their investment rather than spreading it out over five years, costing Maine millions more each year in accelerated tax breaks for businesses with gross receipts (income before subtracting expenses) up to \$31 million a year. Under the Tax Cuts and Jobs Act of 2017, the gross receipts test for what qualified a business as “small” was raised from \$5 million to \$25 million and indexed to inflation. The gross receipts test now applies to businesses up to \$31 million, expanding certain tax benefits to businesses that are by no means small. Further, R&D tax preferences are typically spread out across multiple years over the time period when the investment actually pays off, rather than up front. Maine businesses that can afford significant R&D investments don’t need another tax giveaway, and will still receive the same tax benefits over five years without this change.

The supplemental budget incorporates additional changes by reference

In addition to the tax conformity changes identified in the Governor’s supplemental budget, additional tax changes are made simply by conforming to updates to the federal tax code, and what constitutes federal adjusted gross income (AGI). Because Maine uses

federal AGI for the basis of its income tax, new federal above-the-line deductions need to be added back, or the tax benefits will flow through Maine's tax code as well. To prevent this, Maine law must include an "addition modification," adding the income excluded by the tax deduction back in so the income exempted from tax at the federal level is taxed at the state level. The Governor's budget already does this for other provisions.

Maine should fully eliminate the Qualified Small Business Stock (QSBS) exemption

MECEP recommends fully decoupling from the Qualified Small Business Stock (QSBS) exemption rather conforming with its federal expansion, as the Governor's budget currently proposes. QSBS is a windfall for investors, giving them 100% tax break on capital gains up to \$15 million for early-stage investment in businesses with up to \$75 million in assets. Research shows 94% of those benefiting have income over \$1 million and account for nearly 75% of gains excluded from taxation.ⁱⁱ Research also shows QSBS claims are heavily skewed to high income taxpayers making large claims.ⁱⁱⁱ MRS estimates expanding this exemption will cost Maine an additional \$6-\$8 million per biennium. Experts estimate fully decoupling could save Maine \$15 million per biennium instead.

Maine should decouple from Opportunity Zones

MECEP recommends decoupling from the deduction for investment in Opportunity Zones. This is yet another program that sounds good on the surface, but primarily benefits wealthy investors rather than the underserved communities it is intended to support. Research shows Opportunity Zones are concentrated more in communities that already receive investments; are primarily real estate projects that lead to gentrification; largely did not lead to job creation or economic development in communities; and primarily supported projects that likely would have moved forward anyway.^{iv} Maine will still be eligible to participate in the federal Opportunity Zone program (which we should carefully consider participating in), but we shouldn't be giving a state tax break for this ineffective program.

Tax cuts for individuals benefit few, leave most behind

The partial deduction on tips up to \$25,000 and overtime up to \$12,500 would benefit a small number of working Mainers while leaving most behind. Only 2-5% of Mainers^v would benefit from these tax cuts costing the state \$37 million per year. Low-income Mainers would see little benefit, while those with higher incomes would receive higher tax cuts. The deduction for older Mainers will help only 14% of Mainers, and is intended to offset the tax on social security, which is already tax-free in Maine. This, again, will provide no benefit to

lower income older Mainers who already have no tax liability. The deduction for car loan interest only applies to brand new, American-made cars purchased from 2025-2028, again leaving behind anyone who cannot afford to buy a new car. Furthermore, these changes are temporary, while huge giveaways for businesses are permanent.

MECEP supports some conformity provisions

The Governor's supplemental budget includes conforming Maine tax code with the shift from global intangible low taxed income (GILTI) to net controlled foreign corporation tested income (NCTI). MECEP supports this change, which will allow the state to capture more of the tax revenue that is lost when business shelter profits in overseas tax havens.^{vi}

MECEP also supports conforming to the increased standard deduction, which will benefit most Mainers.

Maine should ask more of those with the most to fund important priorities.

Maine can meet this moment by rejecting costly conformity provisions that primarily benefit the wealthy and big corporations and instead ask for more from those who benefitted from Congress' tax shift.

Mainers deserve a fair tax code. Conformity with most HR 1 provisions would move the state backward. Instead, we urge the Legislature to move forward with revenue raising proposals this Committee already supported last session—LD 229, LD 1089, and LD 1879—that would increase taxes on those with wealth and large corporations to fund important priorities.

Maine needs to make investments that will allow all Mainers to thrive, not give more tax breaks to the already wealthy and successful. We urge the Committee to reject conforming with most provisions of HR 1, and commend the Governor for excluding many of them from her supplemental budget.

Thank you for your time. I would be happy to answer any questions. maura@mecep.org

ⁱ Pillsbury, Maura. "As Mainers struggle, State gives away millions in new business tax breaks." Maine Center for Economic Policy. 11 Feb 2026. <https://www.mecep.org/blog/as-mainers-struggle-state-gives-away-millions-in-new-business-tax-breaks/>

ⁱⁱ Austin & Johnson (see reference above)

ⁱⁱⁱ Abdulrauf, Zahrah, Gerald Auten, Paul R. Organ, and Quinton White. "Quantifying the 100% Exclusion of Capital Gains on Small Business Stock." Office of Tax Analysis Working Paper 127 January 2025. US Treasury. <https://home.treasury.gov/system/files/131/WP-127.pdf>

^{iv} Theodos, Brett and Brady Meixell. "Opportunity Zones Need to Be Retooled to Achieve Impact." 12 May 2025. The Urban Institute. <https://www.urban.org/urban-wire/opportunity-zones-need-be-retooled-achieve-impact>

^v Analysis from the Institute on Taxation and Economic Policy.

^{vi} Davis, Carl. "NCTI is an Important Part of the Federal Corporate Tax. States Should Adopt It Too." 12 Feb 2026. Institute on Taxation and Economic Policy. <https://itep.org/ncti-is-an-important-part-of-the-federal-corporate-tax-states-should-adopt-it-too/>