How Maine's Personal Income Taxes Work

Mainers calculate their state personal income tax in three basic steps.

Calculating Personal Income Tax

Step One:	Step Two:	Step Three:
Adjusted Gross Income	Taxable Income	Tax before Credits
− Deductions and Exemptions	x Bracket Rates	− Credits
Taxable Income	Tax before Credits	**Taxes Owed**

Step One: Calculate Taxable Income

Most people don't pay income taxes on their full income. Adjusted gross income is a filer's income from all sources minus certain "above-the-line" deductions for things like college fund and retirement contributions. Filers then subtract deductions and exemptions from their adjusted gross income to calculate their taxable income.

Deductions

Maine tax filers choose between the standard deduction and the itemized deduction. The standard deduction is a fixed amount based on filing status. In 2016 the state standard deduction will be $11,600 for single taxpayers and $23,200 for married taxpayers filing jointly. The itemized deduction is the total of a household's yearly payments toward qualifying expenses like mortgage interest and charitable contributions. Taxpayers generally choose the larger of the standard or itemized deduction.

Exemptions

Maine conforms to the federal personal exemption amount ($4,050 for 2016) and a taxpayer claims a number of exemptions equal to the number of household members. For example, a married couple with one child would claim three exemptions, for a total exemption amount of $12,150 (3 x $4,050). The value of the personal exemption adjusts with inflation each year.

Step Two: Calculate Income Tax before Credits

After calculating taxable income, filers apply tax rates based on income brackets to determine income tax owed before credits.

Rates

Income tax rates are a percent of tax due for income within a certain bracket. For a fair distribution, tax rates increase as income brackets increase. A taxpayer with enough taxable income to reach into all three brackets will pay a lower tax rate on the first dollar of taxable income and a higher tax rate on the last dollar of taxable income.

Brackets

Income brackets set the range of income for which each tax rate applies. Maine has three brackets and they vary by filing status. Taxpayers might only have income taxed at the first bracket rate if their income is small, and taxpayers with larger taxable income might have portions of their income subject to each of the three bracket rates.

Step Three: Calculate Taxes Owed

Filers subtract credits from the income tax calculated with brackets and rates. Depending on whether a credit is refundable, some income tax credits may result in a state refund check.

Non-Refundable Credits

Non-refundable credits do not reduce a taxpayer's liability below zero. If a taxpayer's total non-refundable credits exceed income tax owed, they will not receive a refund and will lose the unused portion of the credit.

Refundable Credits

Refundable credits will result in a check to the taxpayer from the state if the taxpayer's total refundable credits exceed income tax owed, boosting after-tax income for that family.