

**To:** Interested parties

**Date:** December 16, 2025

**RE:** State conformity with federal tax changes in H.R. 1

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In the wake of federal passage of H.R. 1, states have several crucial decisions to make about whether to conform or decouple from new federal tax provisions. Policy gimmicks in H.R. 1 disguise its true nature as a huge tax giveaway to the ultra-wealthy and big corporations. State conformity decisions could significantly impact the state's ability to fairly raise revenue in the future, costing **Maine more than \$300 million per year**, not including millions in additional tax breaks extending years into the past.

H.R. 1 makes permanent many of the provisions from the previous Tax Cuts and Jobs Act (TCJA) of 2017, which the state has already addressed in past conformity bills. The state decouples from many of these provisions, such as the standard deduction, and therefore does not automatically conform to federal changes. Some provisions of H.R. 1 are retroactive to include tax year 2025, or in some cases even earlier tax years, and will impact taxpayer filings beginning in January 2026.<sup>1</sup>

This memo outlines MECEP recommendations to advance tax fairness and best position for the state into the future. MECEP has not taken a position on conformity measures not highlighted in this memo. Additional tax provisions are discussed in **Appendix A**. Additional data analysis of selected provisions is presented in **Appendix B**.

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<sup>1</sup> Adoption of certain conformity provisions will impact 2025 income tax returns. Changes could necessitate taxpayer refiling. See memo from Commissioner Kirsten Figueroa dated September 30, 2026 RE: Report on 2025 Conformity with Federal Tax Law Changes.

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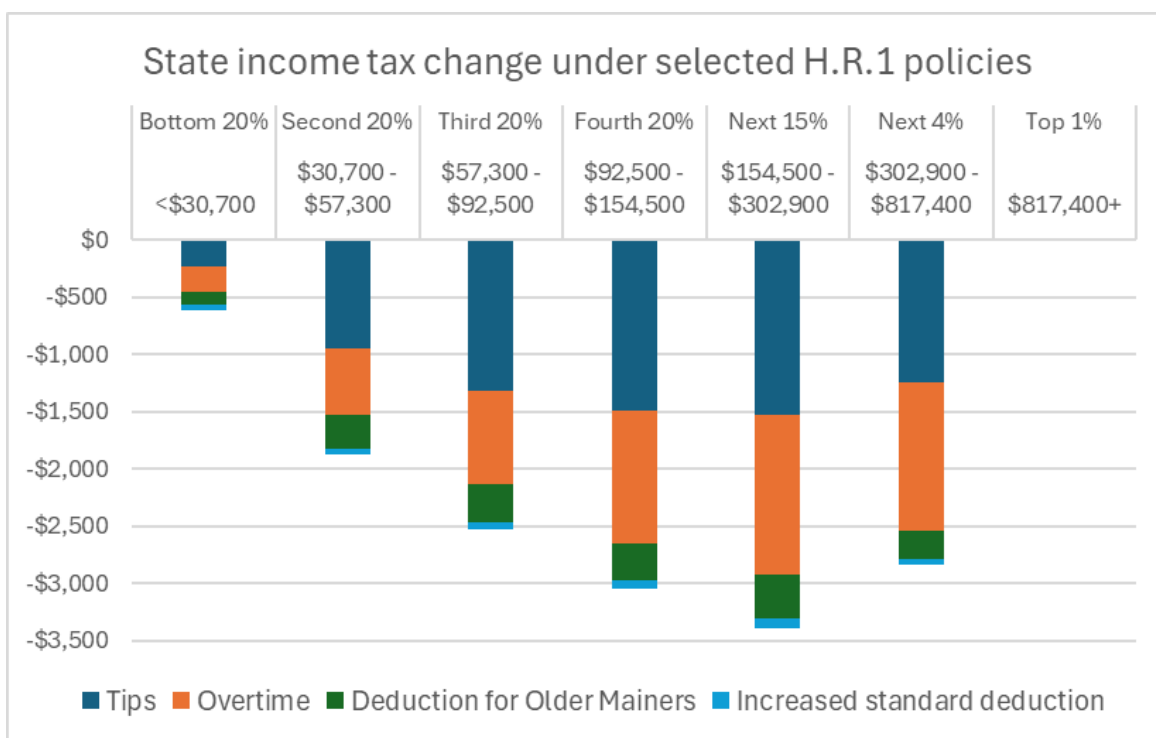
## Key conformity provisions (individuals)

Conforming with most of the individual, retroactive tax changes in H.R. 1 is estimated by MRS to cost the state **over \$100 million per year**. Most of these changes are poorly targeted and fall short of helping Mainers who need it most. Some are gimmicks that seem appealing, but would make Maine’s tax code less fair by treating different types of income differently and create potentially unintended consequences. One is an expansion of a huge windfall for the wealthy that should be completely repealed. MECEP supports two provisions that could make the tax code more progressive and provide additional support for child care, with some caveats.

<b>Summary of key conformity provisions (individuals)</b>				
<b>Policy</b>	<b>Change</b>	<b>Phase out begins (AGI)</b>	<b>Estimated annual \$ impact <sup>2</sup></b>	<b>MECEP position</b>
<b>Retroactive to 2025 (or earlier)</b>				
Increased standard deduction	Inc. by \$750 single/\$1,500 married filing jointly (mfj)	State phaseout: \$97,140 single \$145,750 head of household (hoh) \$194,300 mfj (2024 numbers)	(\$31m)	Qualified support
Temporary deduction for certain older Mainers	Up to \$6k per taxpayer over 65	\$75k single \$150k mfj	(\$31m)	Opposed, better options available
Deduction for tips	Up to \$25,000 per taxpayer	\$150k single \$300k mfj	(\$9m)	Opposed, better options available
Deduction for overtime pay	Up to \$12,500 per taxpayer	\$150k single \$300k mfj	(\$28m)	Opposed, better options available
Deduction for car loan interest	Up to \$10,000 per taxpayer	\$100k single \$200k mfj	(\$9m)	Opposed
<b>Effective beginning 2026 or later</b>				
Charitable deduction for non-itemizers	Up to \$1,000 single, \$2,000 mfj	None	(\$9m)	Opposed

<sup>2</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

Policy	Change	Phase out begins (AGI)	Estimated annual \$ impact <sup>3</sup>	MECEP position
Exclusion for qualified small business stock (QSBS) gains	Significantly expanded; amount of tax-free gains increased from \$10m to \$15m	None	(\$3m-4m)	Opposed
Tax credit for contributions of individuals to scholarship granting organizations	Allows 100% deduction for up to \$1,700 contribution, including to private and religious education	None	Unknown	Opposed



Data source: Institute on Taxation and Economic Policy, Dec. 2025

Note: Average tax cut for those with a cut, by income. See Appendix B for additional data analysis of individual tax provisions.

<sup>3</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

## Additional information – key conformity provisions (individuals)

<b>Policy</b>	Increased standard deduction
<b>Estimated cost</b>	\$31 million
<b>Effective date</b>	Tax year 2025, permanent
<b>Summary</b>	Maine conformed to the federal standard deduction in the past, but in recent years decoupled prior to the expiration of the Tax Cuts and Jobs Act (TCJA) to ensure Mainers would not see a tax increase. H.R. 1 made the standard deduction permanent and increased it even further. Maine’s current standard deduction for 2024 is \$15k for single filers, \$30k for those married filed jointly; it is indexed to inflation and automatically increases each year. It also phases out for higher incomes. Conforming to this change would increase Maine’s standard deduction by \$750 for single filers and \$1,500 for those married filing jointly.
<b>MECEP position</b>	<b>Qualified support.</b> While MECEP is not opposed to increasing the standard deduction, this would reduce revenue at a time when the state already has many pressing unmet needs and is facing significant loss of federal funding. The state may wish to more narrowly target tax benefits to Mainers most in need or support underfunded programs rather than increasing the standard deduction. MECEP supports increasing the standard deduction instead of decreasing the bottom tax bracket under LD 221, which passed the Legislature last session. See Appendix B for additional analysis.

<b>Policy</b>	Temporary deduction for certain older Mainers
<b>Estimated cost</b>	\$31 million
<b>Effective date</b>	Tax years 2025 – 2028
<b>Summary</b>	This deduction was added to H.R. 1 as an alternative to making social security income tax-free. It provides an additional \$6,000 deduction (reducing taxable income) for those 65+, with phaseout beginning at \$75,000 adjusted gross income for individuals, \$150,000 for those married filing jointly. The deduction phases out at a rate of 6% (\$60 per \$1,000 of income) and is fully phased out at \$175,000 for single filers, \$250,000 married filing jointly.
<b>MECEP position</b>	<b>Opposed, better options available.</b> Maine already fully exempts social security income and some pension income <sup>4</sup> from taxation and therefore conforming to this provision is duplicative. Older Mainers already receive many other tax supports. Maine should instead target

<sup>4</sup> Equivalent to the amount of the maximum social security benefit at full retirement, which is \$48,216 per person in 2025.

	tax preferences to those who most need help regardless of age and toward older Mainers who need it most, as well as investing in area agencies on aging and stipends for direct care workers. This provision would benefit older Mainers with higher incomes more than those with low-income. See Appendix B for additional analysis.
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<b>Policy</b>	Deduction for tips
<b>Estimated cost</b>	\$9 million
<b>Effective date</b>	Tax years 2025-2028
<b>Summary</b>	This provision allows a deduction of up to \$25,000 each year making tipped income up to that amount tax-free. The deduction phases out at higher incomes (over \$150,000 adjusted gross income for single filers, \$300,000 for married filing jointly)
<b>MECEP position</b>	<p><b>Opposed, better options available.</b> Creating an income tax deduction for tipped income would unfairly treat different types of income differently, leaving behind non-tipped low-wage workers like those in the child care and direct care fields while favoring others like servers and bartenders. It also creates an incentive for employers to reclassify positions to receive tipped income rather than wages. Some portion of tipped workers already pay little to no state income tax, thanks to the existing standard deduction, personal exemption, and tax credits. The primary beneficiaries of this proposal will be higher earning tipped workers who take the full deduction.</p> <p>Instead, lawmakers should support policies that help a broader range of workers. A number of states have ensured that drivers who work for platforms like Uber, Lyft, and DoorDash, who rely heavily on tips, have stronger labor protections. These include a minimum wage, access to paid sick time and workers’ compensation, and transparency for drivers about how they are paid. Maine should pursue these protections for tipped workers instead of creating a deduction for tips that leaves many workers who earn less and don’t receive tips behind. Currently, about 2% of all Maine workers are tipped workers, including 7% of low-wage workers.<sup>5</sup> See Appendix B for additional analysis.</p>

<sup>5</sup> Myall, James. “3 reasons why no tax on tips isn’t all it’s cracked up to be.” 30 Aug 2024. Maine Center for Economic Policy. <https://www.mecep.org/blog/3-reasons-why-no-tax-on-tips-isnt-all-its-cracked-up-to-be/>

<b>Policy</b>	Deduction for overtime pay
<b>Estimated cost</b>	\$28 million
<b>Effective date</b>	Tax years 2025-2028
<b>Summary</b>	This deduction allows workers to deduct overtime pay up to \$12,500 for single filers, \$25,000 married filing jointly (the “half” part of their “time-and-a-half” is tax free up to that amount). The deduction begins to phase out at \$150,000 (single), and \$300,000 (married).
<b>MECEP position</b>	<b>Opposed, better options available.</b> Creating a deduction for overtime pay unfairly treats different types of income differently. Those in jobs with overtime pay are already likely to have higher wages, and those with higher wages will receive the greatest benefit from this policy. Businesses could lower regular wages as a result to pressure employees to work overtime. A more effective overtime policy to support low-wage workers in Maine would be expanding the threshold at which low-wage salary workers qualify for overtime pay, as proposed by LD 599. This bill is currently on the appropriations table awaiting funding. See Appendix B for additional analysis.

<b>Policy</b>	Deduction for car loan interest
<b>Estimated cost</b>	\$9 million
<b>Effective date</b>	Tax years 2025-2028
<b>Summary</b>	Allows taxpayers purchasing a new vehicle assembled in the US for personal use to deduct up to \$10,000 (reducing taxable income) of vehicle loan interest on loans taken in 2025 or later. Phases out for incomes beginning at \$100,000 (single), \$200,000 married filing jointly.
<b>MECEP position</b>	<b>Opposed.</b> There are other more important tax and budget priorities for the state than subsidizing new vehicle purchases. This provision is unlikely to help low-income Mainers having difficulty buying a car because it is only applicable to new car purchases. In addition, because it favors US car manufacturers, adopting this deduction could put Maine at risk of a lawsuit from foreign vehicle manufacturers who are likely to contest it as discrimination against foreign commerce. Expanding the deduction to cover purchases of foreign cars would cost even more in state revenues. Further, applying this deduction to car purchases made in 2025 is a tax giveaway for vehicles people have already purchased, not an incentive.

<b>Policy</b>	Charitable deduction for non-itemizers
<b>Estimated cost</b>	\$9 million
<b>Effective date</b>	Permanent, starting in tax year 2026
<b>Summary</b>	This allows a deduction (reducing taxable income) up to \$1,000 for single filers, \$2,000 for those married filing jointly.
<b>MECEP position</b>	<b>Opposed.</b> This costly deduction would have a significant fiscal impact, and would likely apply to giving that would have occurred anyway since the benefit is greater for federal taxes. The cap on giving is low, and providing an additional state deduction is unlikely to tip the balance to give since it does not create a significant new incentive for non-itemizers to make donations. For example, individual filers in the top tax bracket will already receive a \$370 benefit on their federal taxes for contributions up to \$1,000. Conforming with this measure would translate to a maximum additional state tax cut of \$71.50. After Maine began capping itemized deductions in 2013 charitable giving actually went up, showing the limited impact the state level policy has on giving. <sup>6</sup>

<b>Policy</b>	Child and dependent care tax credit
<b>Estimated cost</b>	\$1.7 million
<b>Effective date</b>	Tax year 2026, permanent
<b>Summary</b>	<p>This credit helps offset the cost of child care for working families. H.R. 1 changes the federal calculation of the credit, making it more generous for middle-income taxpayers, while also allowing filers who spend less on child care to qualify for the maximum credit. It does not provide additional support for the lowest income families because it is non-refundable.</p> <p>Maine provides a dependent care credit of 25% of the federal credit. Therefore, expanding the federal credit will also increase Maine’s maximum credit from about \$150 to \$263 for one dependent, and from about \$300 to \$525 for 2+. Maine’s credit is doubled if expenses are for a quality child care provider. The credit percentage steps down from 50% to 20% of eligible expenses depending on income and filing type, as shown in the table below.<sup>7</sup> The federal credit is nonrefundable, but Maine’s credit is refundable up to \$500.</p>

<sup>6</sup> <https://mainephilanthropy.org/resources/giving-maine-reports>

<sup>7</sup> Crandall-Hollick, Margo. “The 2025 Reconciliation Law Makes Some Modest Changes to Child Care Tax Benefits, Provides Little Help For Low-Income Families.” Tax Policy Center. 30 July 2025. <https://taxpolicycenter.org/taxvox/2025-reconciliation-law-makes-some-modest-changes-child-care-tax-benefits-provides-little>

	<b>Adjusted gross income</b>	<b>Old benefit %</b>	<b>New benefit %</b>
	<\$15,000	35%	50%
	\$15,000-\$43,000	20%	35%-50%
	\$43,000-\$75,000 single \$43,000 -\$150,000 married	20%	35%
	\$75,000-\$103,000 single \$150,000-\$206,000 married	20%	20%-35%
	\$120,000+ single \$206,000+ married	20%	20%
<b>MECEP position</b>	<b>Qualified support.</b> The cost of child care is increasingly unaffordable for Maine families. <b>However, further expanding the credit to make it fully refundable would better support families with low-income and help them afford child care rather than conforming to this provision.</b>		

<b>Policy</b>	Exclusion for qualified small business stock (QSBS) gains
<b>Estimated cost</b>	\$3-\$4 million
<b>Effective date</b>	Tax year 2026, permanent
<b>Summary</b>	The exclusion for qualified small business stock allows owners of stock in certain businesses to avoid taxes on capital gains. H.R. 1 significantly expands the QSBS in three ways: 1) expands the amount of gains that can be excluded per shareholder from \$10m to \$15m; 2) increases the size of companies who can benefit from those with assets up to \$50m to \$75m; 3) gains held for shorter time periods can be partially excluded.
<b>MECEP position</b>	<b>Opposed.</b> This tax subsidy exists under the guise that it helps small businesses, but instead it is a windfall to wealthy investors. <sup>8</sup> This provision expands an already huge tax loophole for the wealthy. <b>This tax policy should be fully repealed, not expanded.</b>

<b>Policy</b>	Tax credit for contributions of individuals to scholarship granting organizations
<b>Estimated cost</b>	Unknown
<b>Effective date</b>	2027
<b>Summary</b>	This provision allows a 100% tax credit up to \$1,700 per year (reduction in taxes) for donations made to non-profit organizations that fund k-12 education scholarships, including for public, private, and religious schools.

<sup>8</sup> Drucker, Jesse and Maureen Farrell. "A Lavish Tax Dodge for the Ultrawealthy Is Easily Multiplied." The New York Times. 28 Dec 2021. <https://www.nytimes.com/2021/12/28/business/tax-break-qualified-small-business-stock.html>

<b>MECEP position</b>	<b>Opposed.</b> This provision could funnel public tax dollars to private and religious schools that allow discrimination. Public funding should support public schools, especially in light of threats federal funding for education, lack of state funding for school construction, and challenges communities face to raise adequate funding for school budgets.
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### Key conformity provisions (businesses)

The tax provisions in H.R. 1 are a major windfall for big businesses, increasing how much they can write off in taxes for business assets and property depreciation. These policies will primarily benefit big corporations, not Maine’s small businesses, and **would cost the state over \$200 million each year.** For context, corporate income tax revenue in FY25 was just \$410 million total.<sup>9</sup> Maine already gives away hundreds of millions of dollars in subsidies to businesses each year. Maine should reject these policies and instead invest in supports for its people and workforce, like child care, housing, health care, and education. MECEP supports three provisions that would raise revenue and reign in tax giveaways to businesses.

Summary of key conformity provisions (businesses)			
Policy	Change	Estimated cost <sup>10</sup>	MECEP position
<b>Retroactive to 2025 or earlier</b>			
Increased limits for expensing business assets (Section 179)	Limit increased from \$1.25m to \$2.5m	Under \$2m	Opposed
100% bonus depreciation for most machinery and equipment	Increase from 40% to 100%	(\$103m)	Opposed, retain decoupling under current law
100% depreciation election for real property used for producing tangible personal property	New	(\$6m)	Opposed
Immediate expensing of research and experimental expenses	Reinstates expired policy retroactive to 2022, from 20% per year	(\$59m) for 2025 or (\$136m) if retroactive to 2022	Opposed

<sup>9</sup> December 2025 Revenue Forecast, <https://legislature.maine.gov/doc/12157>

<sup>10</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

<b>Policy</b>	<b>Change</b>	<b>Estimated cost</b>	<b>MECEP position</b>
Business interest deduction adjustment	Expands definition, increasing cap	(\$7m)	Opposed
Rural/agricultural property loan interest exclusion	Excludes 25% of interest from taxation	Unknown	Opposed
Treatment of payments from partnerships to partners for property or services	Allow state to set guidelines for audits in absence of federal regulations	\$1.5m	Support, review audit capacity
<b>Effective beginning 2026 or later</b>			
Global intangible low-taxed income (GILTI)/Net CFC Tested Income (NCTI)	Makes changes to calculations for determining tax intended to limit tax avoidance via corporate profit shifting to foreign subsidiaries	\$1.8m	Support
Modification and extension of limitation on excess business losses of noncorporate taxpayers	Limits deductions for non-corporate business losses against non-business income	\$100,000-\$200,000; \$3m beginning in 2029	Support
Permanent renewal and enhancement of Opportunity Zones	Creates new program beginning in 2027 allowing investors in depressed areas to shelter capital gains from taxation	(\$5.25m, increasing to \$9m and \$10m in FY28, FY29)	Opposed

## Additional information – key conformity provisions (business)

<b>Policy</b>	Increased limits for expensing business assets (Section 179)
<b>Estimated cost</b>	<\$2 million
<b>Effective date</b>	Property purchased after 12/31/24, permanent
<b>Summary</b>	This change doubles the limit on deductions for business expenses from \$1.25m to \$2.5m and indexes the limit to inflation in future years. Beyond these limits, the investments are eligible for depreciation deductions (write-offs occurring over time). It also increases the phase down limit from \$3.13m to \$4m—if a business purchases and uses property valued over this amount, the amount of allowable deduction decreases, or phases down.
<b>MECEP position</b>	<b>Opposed.</b> Maine should not conform to more generous tax giveaways for large businesses. Instead, the state should focus on supports for small businesses and workers. However, this policy is preferable to 100% depreciation due to the limit on deductions.

<b>Policy</b>	100% bonus depreciation for most machinery and equipment
<b>Estimated cost</b>	\$103 million
<b>Effective date</b>	Property purchased after January 19, 2025, permanent
<b>Summary</b>	Depreciation tax provisions allow businesses to deduct the cost of equipment over its useful life. “Bonus” depreciation allows businesses to deduct the cost of equipment up-front in the initial year of purchase from their taxable income, rather than over the life of the equipment. Bonus depreciation has repeatedly been expanded and reduced since it was originally enacted in 2002.
<b>MECEP position</b>	<b>Opposed.</b> Maine is already decoupled from federal bonus depreciation and should remain decoupled (take no action). Conforming would be costly. Capital investments do not have to occur in Maine to qualify, therefore Maine tax dollars lost due to this deduction could be subsidizing businesses elsewhere. The retroactive nature is a tax giveaway for purchases already made, not an incentive.

<b>Policy</b>	100% depreciation election for real property used for producing tangible personal property
<b>Estimated cost</b>	\$6 million
<b>Effective date</b>	For buildings placed in service after July 4, 2025
<b>Summary</b>	This allows businesses to claim a 100% income tax deduction for the cost of manufacturing buildings placed in service during the specified timeframe. This provision expands bonus depreciation to

	include manufacturing facilities/buildings, whereas in the past it has only included machinery and equipment.
<b>MECEP position</b>	<b>Opposed.</b> Maine is already decoupled from federal bonus depreciation for manufacturing equipment and therefore should decouple from this provision granting bonus depreciations to manufacturing buildings. MRS has stated this tax break would likely be duplicative of the Dirigo credit, <sup>11</sup> which provides subsidies to businesses for capital expenditures, meaning businesses could receive multiple tax breaks for the same investments. In addition, investments do not have to occur in Maine to qualify, therefore Maine tax dollars lost due to this deduction could be subsidizing businesses elsewhere. The retroactive nature is a tax giveaway for purchases already made, not an incentive.

<b>Policy</b>	Immediate expensing of research and experimental expenses
<b>Estimated cost</b>	\$59m for 2025, \$136m if retroactive to 2022
<b>Effective date</b>	2022, permanent
<b>Summary</b>	Under TCJA, R&D expenses had to be deducted over 60 months, or 20% each year. Conforming to this change will accelerate revenue loss to the state by allowing a full, immediate deduction (reduction in taxable income) for US-based R&D expenses rather than spreading it out over 5 years. Businesses with less than \$31 million in gross receipts (income before costs and expenses are subtracted) can file amended returns back to 2022.
<b>MECEP position</b>	<b>Opposed.</b> Conforming is costly and provides a tax giveaway for expenses that have already occurred multiple years into the past. Immediate expensing doesn't match the economic realities of R&D investments, which pay off over several years. The cost of this provision as a whole will be the same over time, but the up-front cost will be accelerated, which would significantly impact corporate tax revenues. Additionally, there may be constitutional concerns around this provision because it treats US and foreign commerce differently, the legal implications of which are unknown at this time.

<b>Policy</b>	Business interest deduction adjustment
<b>Estimated cost</b>	\$7m
<b>Effective date</b>	2025, permanent
<b>Summary</b>	This change will allow businesses to deduct more interest expenses, reducing their taxable income. Businesses with sales above \$25

<sup>11</sup> MRS document, "Maine Tax Conformity and Federal Public Law No. 119-21: Overview, <https://www.maine.gov/revenue/taxes/tax-policy-office>

	million are limited to deducting interest expenses up to 30% of their pre-tax income. This policy changes the definition of what constitutes pre-tax income for purposes of calculating this deduction, essentially raising the cap on deductible interest.
<b>MECEP position</b>	<b>Opposed.</b> This reduces the taxable income of big businesses who take out large loans and will not benefit small Maine businesses. Maine is currently coupled to the existing TCJA provision with the more restrictive definition of pre-tax income.

<b>Policy</b>	Rural/agricultural property loan interest exclusion
<b>Estimated cost</b>	Unknown
<b>Effective date</b>	Loans made after July 4, 2025
<b>Summary</b>	This provision allows financial institutions and insurance companies to deduct/exclude from taxation 25% of income received on mortgages and loans for properties in the agricultural sector.
<b>MECEP position</b>	<b>Opposed.</b> This reduces the taxable income of financial institutions and insurance companies who provide loans to the agricultural sector. While these businesses may pass on savings to their customers in the form of lower interest rates, it would be better to provide support directly to the agricultural sector.

<b>Policy</b>	Treatment of payments from partnerships to partners for property or services
<b>Estimated cost</b>	\$1.5 million in additional revenue
<b>Effective date</b>	July 4, 2025
<b>Summary</b>	A common tax avoidance scheme within business partnership entities, like LLCs and S-corps, is to disguise transactions between the partnership and partners as a distribution or allocation for services performed under the partnership, rather than a taxable transaction. This H.R. 1 provision eliminates the requirement for federal regulations on audits of transactions within partnerships disguised as payment for services, and allows field agents and MRS to make their own determinations.
<b>MECEP position</b>	<b>Support.</b> This provision allows MRS to make its own determination and identification of tax avoidance for disguised partnership transactions. In addition to conforming, MECEP recommends review of MRS's overall audit capacity and ability to address tax avoidance loopholes that cost the state money in lost revenue.

<b>Policy</b>	Global intangible low-taxed income (GILTI)/Net Controlled Foreign Corporation Tested Income (NCTI)
<b>Estimated cost</b>	\$1.8 million in additional revenue
<b>Effective date</b>	2026
<b>Summary</b>	This provision renames GILTI to NCTI and makes some substantive changes. GILTI was created under TCJA as a new minimum tax on the profits of foreign subsidiaries of US multinational parent corporations. GILTI limited tax avoidance from corporate profit shifting to low-tax jurisdictions overseas, requiring corporations whose foreign subsidiaries exceeded 10% returns to report 50% of the aggregate profits as part of their domestic tax base. Maine is coupled to the federal 50% inclusion. The federal GILTI inclusion was scheduled to increase under TCJA from 50% to 62.5% in 2026. H.R. 1 lowers this to 60% but eliminates the 10% return threshold, meaning the full 60% of subsidiary profits would be included in the tax base if Maine retains its current conformity.
<b>MECEP position</b>	<b>Support.</b> Mandatory worldwide combined reporting is a preferable alternative to reduce tax avoidance and profit shifting. However, Maine should retain the inclusion in the tax base of at least 50% of NCTI and should consider conformity to the full 60% inclusion in the meantime.

<b>Policy</b>	Modification and extension of limitation on excess business losses of noncorporate taxpayers
<b>Estimated cost</b>	\$100,000-\$200,000 in additional revenue initially; \$3 million in additional revenue beginning in 2029
<b>Effective date</b>	2026, permanent
<b>Summary</b>	This makes permanent the limitation on allowing non-corporate businesses, such as S-corps and LLCs, to deduct business losses against non-business income. The limit is total business income plus \$313,000 for individuals, \$626,000 for those married filing jointly. It also adds inflation adjustment.
<b>MECEP position</b>	<b>Support.</b> This provision extends a limit already in place under TCJA. In Maine, non-corporate business income flows through to individual tax returns of business owners/partners for taxation (called “pass-through entities”). Individuals may still carry forward business losses to deduct in future tax years, but may not use them to offset taxes on other non-business income exceeding the limit set in law. Allowing

	the limit to expire would only benefit very high income taxpayers, with real estate and hedge fund investors the most likely to benefit. <sup>12</sup>
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<b>Policy</b>	Permanent renewal and enhancement of Opportunity Zones
<b>Estimated cost</b>	\$5.25m, increasing to \$9m and \$10m in FY28, FY29
<b>Effective date</b>	January 2027
<b>Summary</b>	Changes in H.R. 1 end the existing Opportunity Zones program and created a new one. The law also adds special additional tax benefits for a second, newly created type of Opportunity Zones, allowing an additional 30% in capital gains owed for qualified investments made in rural areas held more than five years. The law also changes the requirement for qualifying zones from 80% to 70% of median income.
<b>MECEP position</b>	<b>Opposed.</b> Maine should decouple from the extension of this program. Tax advantages will still be provided at the federal level. The program is intended to create an incentive for investment in economically depressed Census tracts, but in reality Opportunity Zones have been a windfall for wealthy investors and corporations gentrifying new areas, while providing few benefits to disadvantaged communities. The program allows investors to exclude capital gains from taxation by rolling over the investment into a Qualified Opportunity Fund (QOF) and deferring recognition of the gain. The state should not direct resources to wealthy investors. Moreover, the tax break is also given for QOFs investing in other states, meaning Maine gets nothing in return for the revenue loss resulting from investments made elsewhere.

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<sup>12</sup> Mazerov, Michael. “First, Do No Harm: States Can Preserve Revenue by Decoupling From CARES Act Tax Breaks for Business Losses.” 4 Jan 2021. Center on Budget and Policy Priorities.  
<https://www.cbpp.org/sites/default/files/atoms/files/12-17-20sfp.pdf>

## Appendix A

### Additional conformity provisions – individual

Policy	Change	Estimated annual \$ impact <sup>13</sup>	MECEP position
<b>Individual - Effective beginning 2026</b>			
Charitable deduction floor for itemizers	Creates floor of .5% contribution of adjusted gross income (with some modifications) to take deduction (only donations in excess of .5% may be deducted)	\$200,000	Support
Dependent care assistance	Increases tax free maximum from \$5,000 to \$7,500	(\$400,000)	Neither for nor against
529 account expansion for k-12 private and religious schools	Increases exemption limit from tax \$10,000 to \$20,000, includes non-tuition expenses	Unknown	Oppose
Trump accounts	Tax preferred savings accounts for children <18 up to \$5,000	Unknown	Neither for nor against
Itemized deduction limitation	Reduces max. itemized deductions by up to 5.4% for high-income taxpayers	Unknown	Support
Pass through deduction	Extends income phase-outs	Unknown (likely small)	Oppose
Child tax credit	Makes permanent; increases from \$2,000 to \$2,200; indexes to inflation; requires at least one parent to have SSN	Unknown	Support; oppose SSN requirement
Exclusion for employer payments of student loans	Makes permanent; excludes up to \$5,250 from tax	(\$1.1m)	Neither for nor against

<sup>13</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

Policy	Change	Estimated annual \$ impact	MECEP position
Extension and modification of limitation on deduction and exclusion for moving expenses	Permanently eliminates deduction for non-military moving expenses	\$650,000	Support
Extension and modification of limitation on deduction for qualified residence interest	Makes permanent; reduces cap from interest on \$1m to \$750,000 (mfj), from \$500,000 to \$375,000 (single, hoh)	\$200,000	Support
Termination of miscellaneous itemized deductions other than educator expenses	Permanently ends “miscellaneous itemized deductions” and creates new definition	\$1.5m	Support

**Additional information on conformity measures – individual**

Charitable deduction floor for itemizers. Permanent starting tax year 2026. This provision creates a new minimum contribution amount to qualify for deducting charitable giving (must be at least .5% of the taxpayer’s federal adjusted gross income, with some modifications). This creates an incentive to make larger charitable donations, while eliminating the deduction for giving that likely would have occurred anyway.

Dependent care assistance. Permanent starting tax year 2026. This change will allow families with employer-sponsored flexible spending accounts for dependent care expenses to exclude up to \$7,500 per household (\$3,750 for individuals married filing separately) per year from taxation, \$5,000 per household (\$2,500 for individuals married filing separately). This provision will primarily benefit taxpayers with higher quality jobs whose employers provide such a benefit, and is worth more for wealthier taxpayers who pay a higher tax rate. There are more targeted ways to help support families who need it with the cost of child care. Given the relatively low revenue impact and the high cost families face paying for care, MECEP is neither for nor against this provision.

529 account expansion for k-12 private and religious schools. Applies to non-tuition expenses as of July 4, 2025. Increases allowable amount of tax-free 529 funds used for k-12 private and religious education from \$10,000 per year to \$20,000 and includes other education expenses in addition to tuition. This further funnels public funding away from

schools that are inclusive of all students into education institutions that are allowed to discriminate.

Trump accounts. Tax year 2026, permanent. This provision creates new tax preferences for up to \$5,000 per year in savings placed in a “Trump account” for children up to the age of 18. Contributions are generally made after tax and withdrawals are subject to ordinary income taxes, so the tax savings of these accounts is limited. The tax advantages are employers can contribute up to \$2,500 tax-free per year, and tax on account earnings is deferred. Maine could consider taxing employer contributions as income, and/or taxing earnings as they accumulate rather than deferring, but this is unlikely to have a significant revenue impact.

Itemized deduction limitation. Permanent, starting tax year 2026. This reinstates the pre-TCJA phase-down of some itemized deductions for high income earners. Maine limits itemized deductions for each tax return to \$36,300 (for 2025; it is adjusted to inflation each year). At the federal level, there currently are no limits on itemized deductions. The cost and implications are uncertain because Maine already decouples from this provision of federal tax law. MECEP supports itemized deduction limitations because itemizers tend to be wealthier. MECEP recommends exploring options for further limiting deductions for wealthy itemizers.

Pass-through deduction. The pass-through deduction for qualified business income (QBI) already primarily benefits wealthier tax filers. The phase-out expansion makes this deduction even more fair, but will likely have limited revenue implications.

Child tax credit. Maine’s version of the child tax credit, the Dependent Exemption Tax Credit (DETC), is decoupled from the federal tax credit and therefore will not be impacted by these changes. However, Maine could consider expanding its child tax credit by a similar amount. MECEP is opposed to the requirement that at least one parent have a social security number because this will exclude some immigrant families.

Exclusion for employer payments of student loans. This provision makes permanent the exclusion of up to \$5,250 in employer sponsored education assistance payments from taxable income, and creates an inflation adjustment going forward.

Extension and modification of limitation on deduction and exclusion for moving expenses. Permanently ends the deduction for moving expenses, with an exemption for military members.

Extension and modification of limitation on deduction for qualified residence interest. Lowers the cap on the amount of interest on a residence that can be deducted.

Termination of miscellaneous itemized deductions other than educator expenses. This ends the prior definition of miscellaneous itemized deductions” (including employee expenses investment fees, tax return prep fees) and creates a new definition restricted to equipment and materials used by educators for instruction.

### **Additional conformity provisions – business**

<b>Policy</b>	<b>Change</b>	<b>Estimated cost<sup>14</sup></b>	<b>MECEP position</b>
Coordination of business interest limitation with interest capitalization provisions	Changes deductible interest limit to apply before the application of interest capitalization rules; prevents cap dodging	\$640,000	Support
Definition of adjusted taxable income for business interest limitation	Reduces allowable deduction by excluding certain income from the definition of adjusted taxable income (ATI)	\$900,000	Support
Charitable contribution floor	Creates floor of 1% of gross income (with some modifications) to take deduction (only donations in excess of 1% may be deducted)	\$2m	Support
Excessive employee remuneration from controlled group members and allocation of deduction	Expands \$1m cap on deduction for income of top executives to include compensation from other parts of the corporation	\$1m	Support
Exception to percentage of completion method of accounting for certain residential construction contracts	Allows more advantageous accounting methods for larger housing developers	(\$400,000)	Support May allow greater flexibility in housing industry for development, although it benefits larger developers

<sup>14</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

<b>Policy</b>	<b>Change</b>	<b>Estimated cost<sup>15</sup></b>	<b>MECEP position</b>
Extension and enhancement of paid family and medical leave credit	Allows credit for percentage of FMLA premiums paid	Implications for state PFML & unknown increased cost to State; possible incentive to opt-out of PFML State plan	Likely oppose, but more information needed on whether federal credit is available to businesses that opt out of PFML

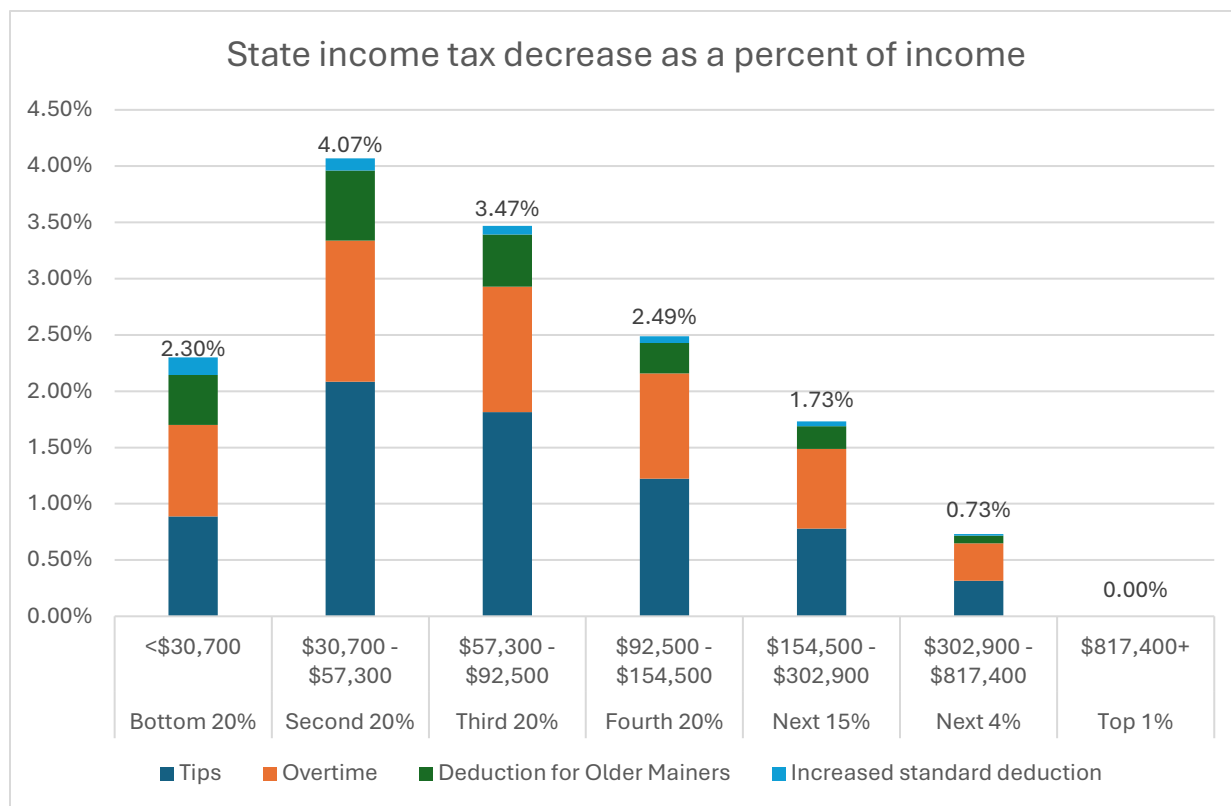
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<sup>15</sup> Source: MRS data presented to AFA and Tax Committees 10/17/25, <https://www.maine.gov/revenue/taxes/tax-policy-office>

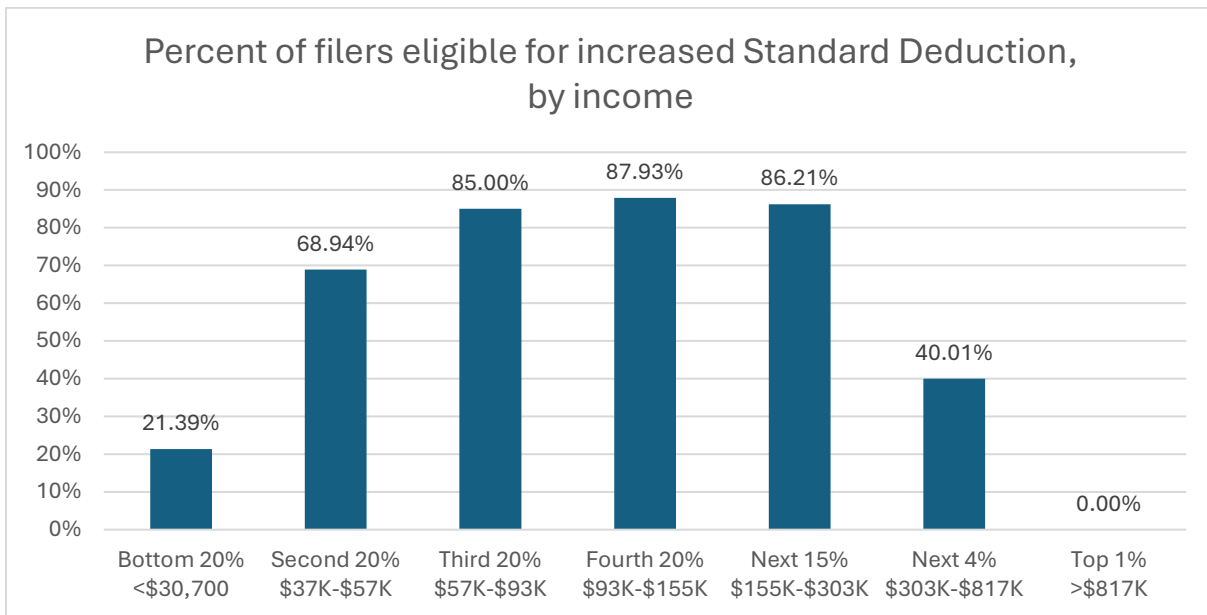
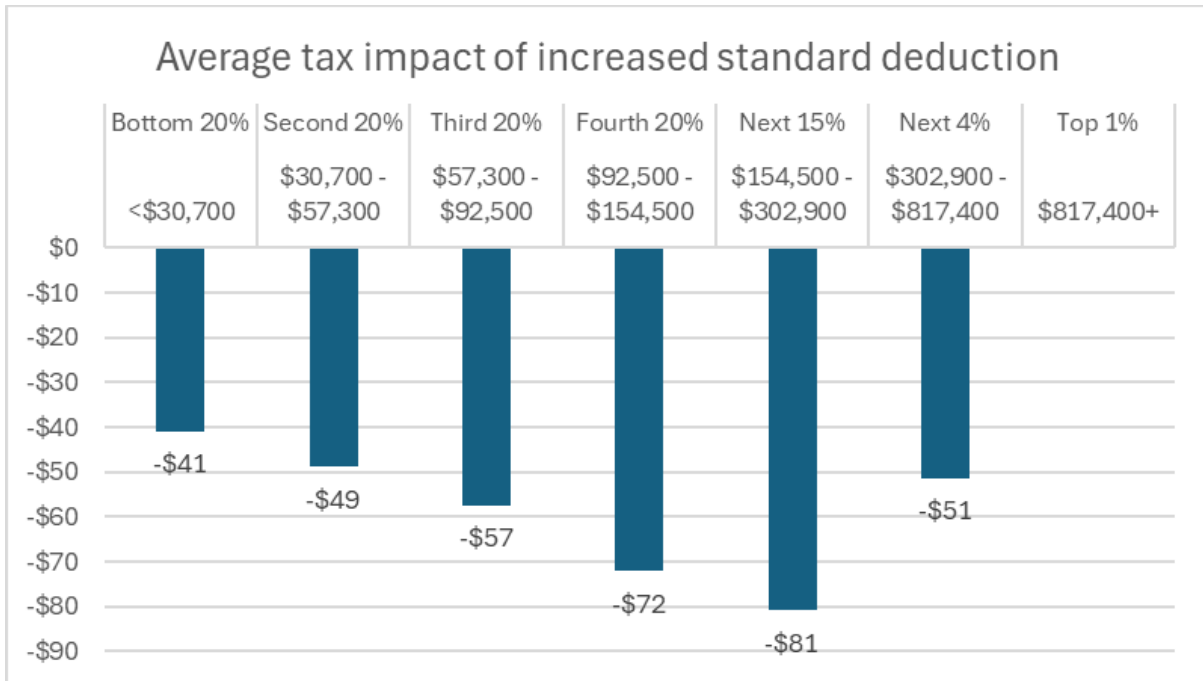
## Appendix B

### Additional data analysis of selected provisions

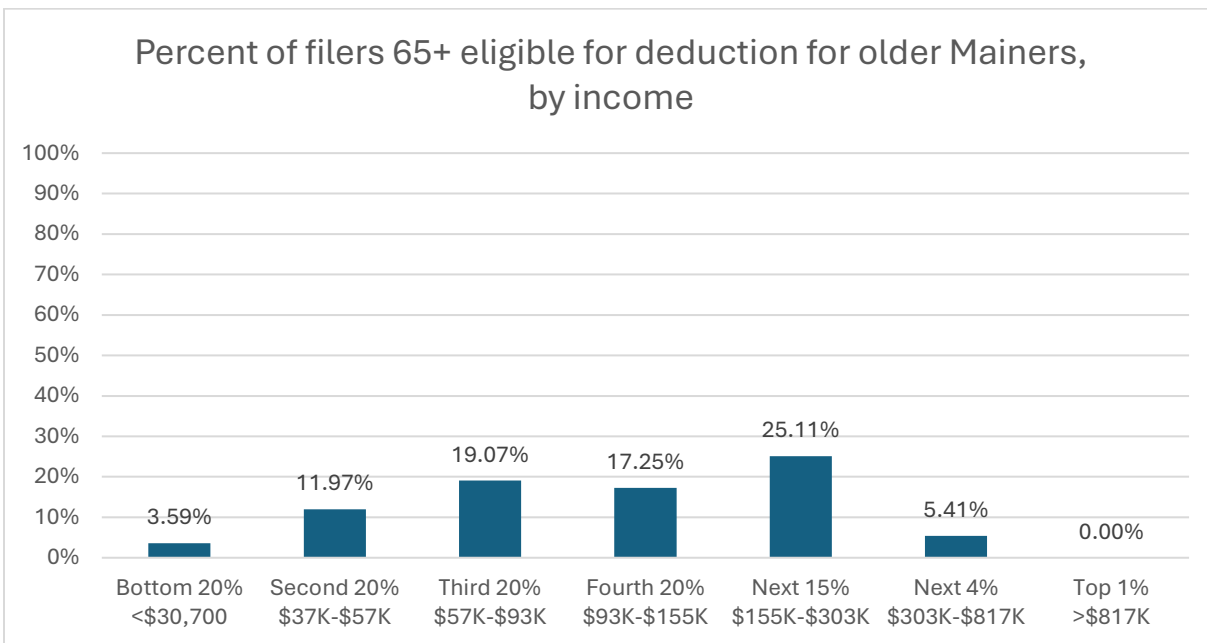
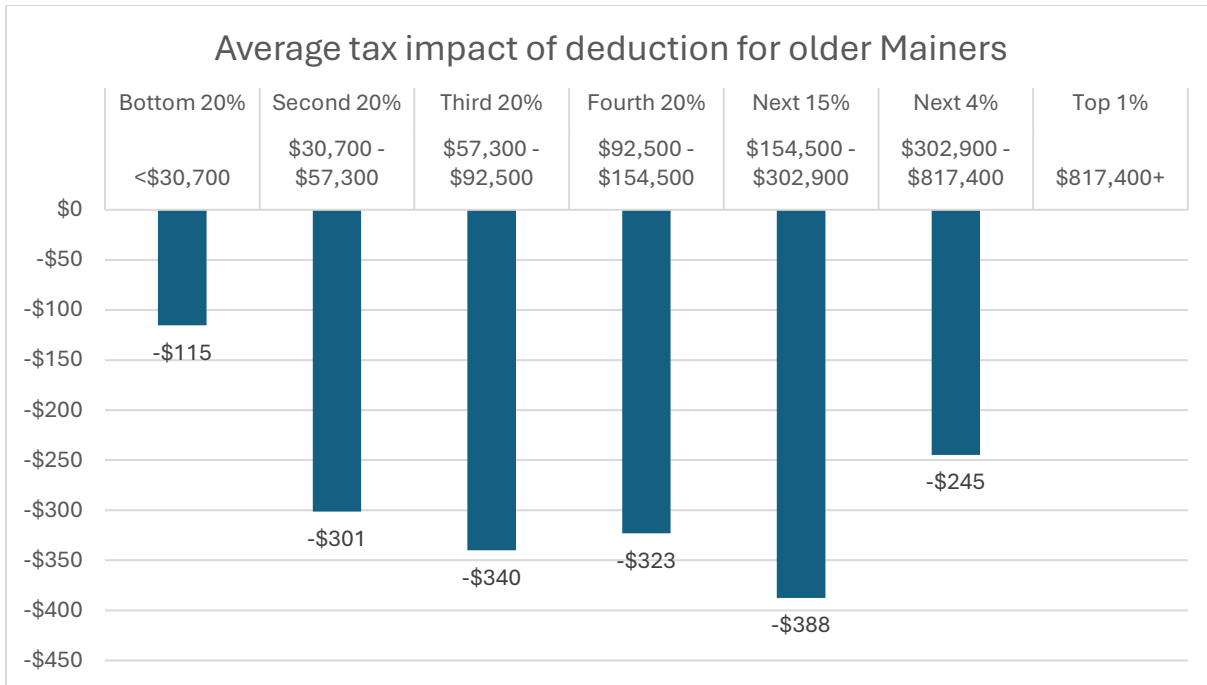
Source for all data: Estimates from Institute on Taxation and Economic Policy, Dec. 2025.



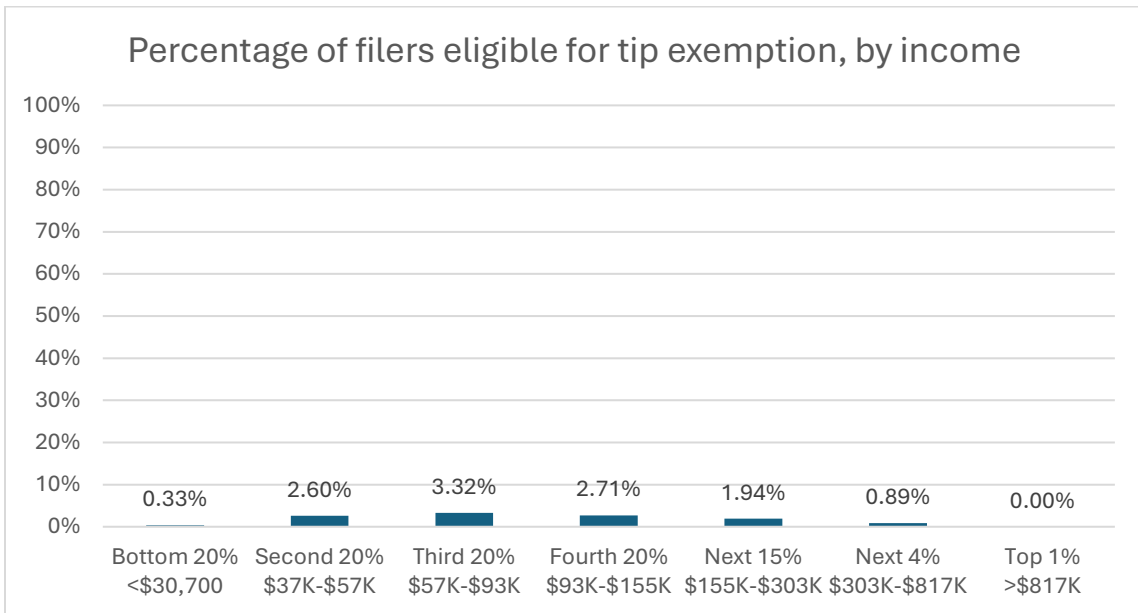
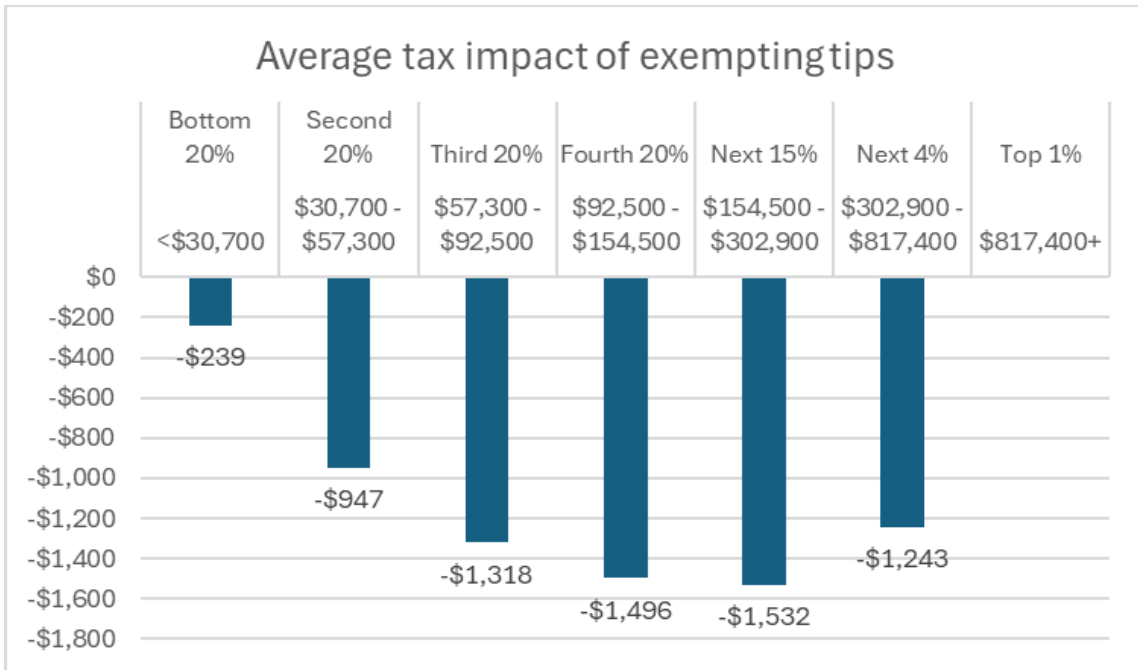
**Discussion:** The above chart shows tax decrease by percentage of income. For example, filers with income under \$30,700 who receive these tax cuts, will on average will keep 2.3% more of their income if they receive all of these cuts. Meanwhile, taxpayers in the middle will receive a greater tax cut relative to their income.



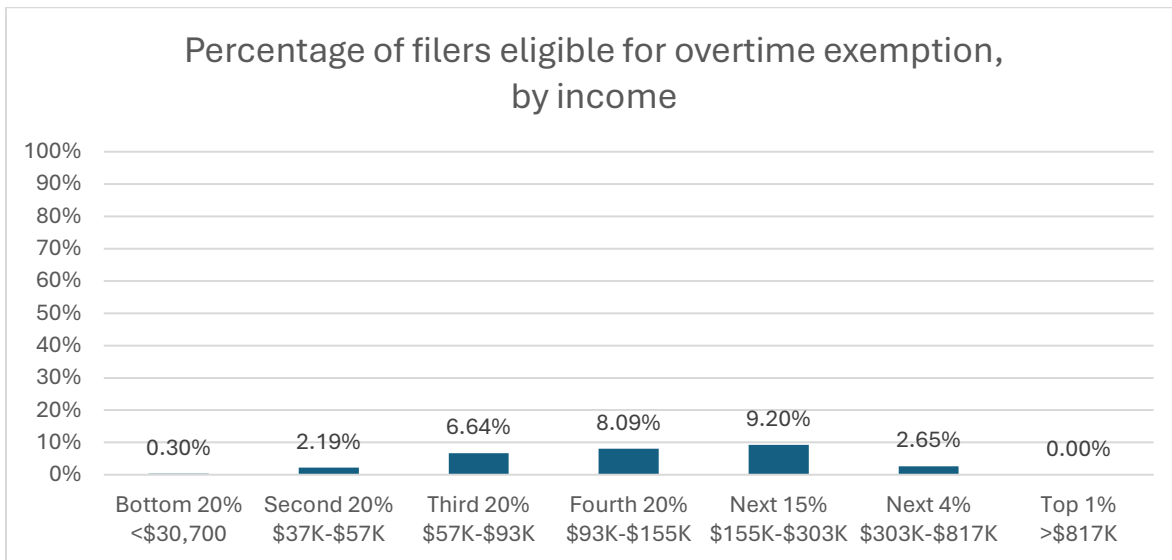
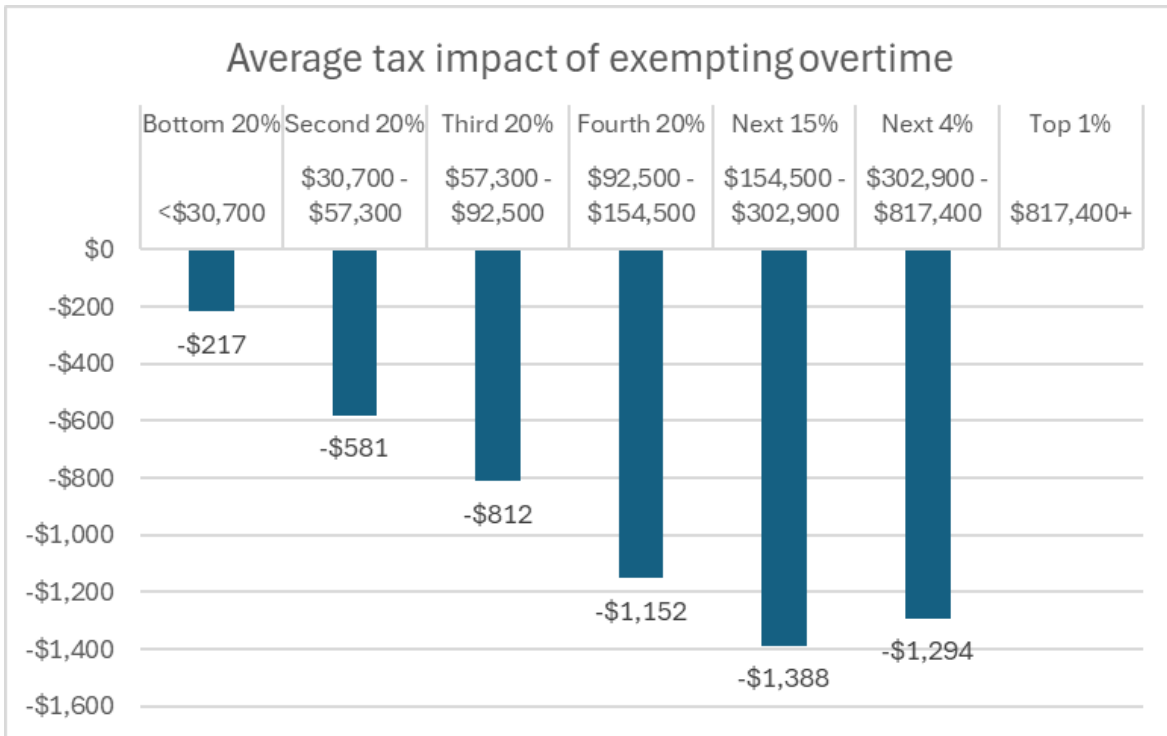
**Discussion:** Most Maine taxpayers would benefit from conforming to the increased standard deduction. However, the largest tax decrease will go to 86% of filers the upper-middle income range. There are more targeted tax policies to help Mainers who need it most.



**Discussion:** While the deduction for older Mainers would provide a tax cut for some, it is not well-targeted to help older Mainers who need it most. More taxpayers 65+ with higher incomes will receive a greater benefit than those with low-income. 25% with income from \$155k-\$303k will receive a \$388 tax cut, while 4% with income under \$30,700 will receive a tax cut of \$115.



**Discussion:** Taxpayers with middle to upper-middle incomes will receive a greater tax benefit from the exemption on tipped income than low-wage workers. Very few tax filers will qualify for this exemption.



**Discussion:** Taxpayers with high incomes will receive a greater benefit from the exemption on overtime than those with lower incomes. Very few tax filers will qualify for this exemption.