

Overview of More Than \$285 Million of Ongoing Annual Bipartisan Tax Relief Provided by Governor Mills and The Legislature

Since 2019, Governor Mills and the Legislature have worked in a bipartisan manner to provide substantial tax relief to Maine people. In fact, the cumulative tax relief enacted between January 2019 and July 2023 is estimated to reduce General Fund revenue by \$285 million in FY25 – an estimated \$750 million for the FY26-27 biennium. Below is a summary of the direct and indirect tax relief enacted since 2019:

Direct Property Tax Relief

- **Expanded Property Tax Fairness Credit (PTFC)** provides targeted property tax relief or rent relief to those Maine residents most overburdened by the property tax. In tax year 2019, a taxpayer's property tax bill needed to exceed 6 percent of their income, and the maximum credit allowed was \$750 for taxpayers under 65 and \$1,200 for taxpayers 65 and older. In addition, property taxes considered for determining eligibility (the benefit base) was \$2,050 for single taxpayers, \$2,650 for married filers or head of household filers with 1 dependent, and \$3,300 for married filers with dependents or head of households with more than 1 dependents. The benefit base amount is adjusted annually for inflation. The cost of PTFC in FY19 was \$27.5 million and benefited approximately 53,000 tax filers.

Over the 2020-23 period the tax-to-income threshold has been reduced to 4 percent, and the maximum credit allowed has increased to \$1,000 for taxpayers under 65 and \$1,500 for taxpayers 65 and older. For tax years beginning on or after January 1, 2024, the Property Tax Fairness Credit is increased for individuals 65 years of age or older by 1) increasing the maximum benefit base to \$4,000, regardless of the individual's filing status and number of qualifying children and other dependents, and 2) increasing the maximum benefit from \$1,500 to \$2,000. The \$4,000 benefit base amount is adjusted annually for inflation for tax years beginning after 2024. All these changes since 2019 are estimated to increase the relief provided by the PTFC to \$111.5 million in FY25 and roughly double the number of tax returns benefiting from the credit.

- **Expanded Benefit for Disabled Veterans** For tax years beginning on or after January 1, 2023, resident individuals who are veterans and 100 percent permanently and totally disabled are allowed an additional income tax credit equal to the amount of the Property Tax Fairness Credit the individual otherwise qualifies for, effectively doubling the Property Tax Fairness Credit. The total credit may not exceed the property taxes paid and rent constituting property taxes paid by the individual and by the State on behalf of the taxpayer pursuant to the property tax deferral program during the tax year.

- **Expanded Homestead Exemption** allows permanent Maine residents who have owned their home for at least 12 months to reduce the value of their home by \$25,000 for property tax purposes, an increase from \$20,000 in 2019. Fixes the rate of State reimbursement to municipalities for the taxes lost due to homestead exemptions at 76 percent for property tax years beginning on or after April 1, 2023, an increase from 62.5 percent in 2019. In FY19 the General Fund cost of the Homestead Exemption reimbursement to municipalities was \$64.5 million. In FY25 the estimated cost is \$105.0 million.
- **Expanded eligibility for the State Property Tax Deferral Program.** The State Property Tax Deferral Program was reestablished in 2021 for the property tax years beginning on or after April 1, 2022. For property tax years 2022 and 2023, an individual was eligible for the deferral program if they (1) were at least 65 or unable to work due to a permanent and total disability, (2) had income less than \$40,000, and (3) had assets less than \$50,000 (\$75,000 if multiple owners). The State pays the property taxes on the qualifying homestead to the municipality each year and places a lien on the property. When the participant passes away, moves, or sells the property, the deferred tax plus interest comes due and must be repaid. The original cost of the program was funded using federal revenue received through the American Rescue Plan with the expectation that at some point in the future the deferral program will become self-funding. For applications filed after January 1, 2024, the household income limitation increases to \$80,000, and the liquid asset limitation increases to \$100,000 (\$150,000 if multiple owners). A municipal lien is no longer an automatic disqualifier from the program if there are no more than two years of delinquent property taxes at the time of the application for deferral. If eligible, the delinquent property taxes are paid by the State and become part of the outstanding tax debt being deferred by the participant. The expansion of the deferral program required a General Fund appropriation of \$1.5 million in FY25.

Indirect Property Tax Relief

- **Municipal Revenue Sharing** continues at full 5 percent. The State-Municipal Revenue Sharing was established as a way for the state to help finance municipal services instead of a municipality relying solely on their property tax revenue. The revenue sharing pool is funded by a percentage of sales, service provider, personal and corporate income tax receipts. As of fall, 2022, Maine cities and towns began receiving the full statutorily required 5 percent each month of State-Municipal Revenue Sharing, up from 2 percent in FY19. In FY19, Municipal Revenue Sharing transferred \$74.1 million to cities and towns. The projection for FY25 is \$263.5 million. As a result of the increase from 2 percent to 5 percent in revenue sharing, municipalities will receive approximately \$155 million more in revenue sharing in FY25.
- **55 Percent Educational Funding** The Mills Administration continues its commitment to Maine schools, municipalities, and teachers by funding 55 percent of K-12 public education costs as outlined in statute. This additional funding helps

to lower the property tax burden to Maine taxpayers. In FY25, the General Fund appropriation for General Purpose Aid (GPA) is \$1.395 billion, an ongoing annual increase of more than \$295 million over the FY19 cost of \$1.098 billion. As a result of the increase from 49.77 percent in 2019 to 55 percent in funding of K-12 public education costs, the state will pay approximately \$112 million more in FY25.

Additional Tax Relief for Low and Middle Income

- **Expanded Refundable Earned Income Tax Credit (EITC)** helps low- to moderate-income workers and families get a tax break. Since 2019, the Governor and Legislature increased the EITC from 5 percent of the federal credit amount to 25 percent of the federal credit for tax filers with at least one qualifying child and 50 percent for tax filers with no qualifying children. The increase in credit rates, along with expanding eligibility for filers without a qualifying child, has increased the maximum EITC from \$28 to \$280 for a taxpayer without qualifying children, and from \$347 to \$1,734 for a family with three or more children. About 100,000 Maine households benefit from the EITC. The cost of the refundable EITC has increased from approximately \$10 million in FY19 to an estimated \$50 million in FY25.
- **Expanded Pension Deduction** provides a tax break for Maine retirees by exempting retirement income from income tax. The pension deduction has increased from \$10,000 to \$30,000 in tax year 2023. For tax years beginning on or after January 1, 2024, the pension income deduction is increased to the maximum annual benefit that an individual eligible to retire at the retirement age, as defined in 42 United States Code, Section 416(1), as of January 1st of the tax year may receive under the federal Social Security Act and amendments to that Act as of June 28, 2023. For the 2024 tax year that amount will be \$45,864. Benefits received under a military retirement plan, including survivor benefits, continue to be fully exempt from Maine income tax, in addition to the deduction of non-military retirement income. The cost of the pension deduction has increased from \$32 million in FY19 to an estimated \$131 million in FY25.
- **Overhauled Student Loan Replacement Tax Credit** replaced the Educational Opportunities Tax Credit beginning in tax year 2022 and provides an annual refundable tax credit of up to \$2,500 if you are an eligible Mainer who is repaying student loans, are working at least part time, and live in Maine, with a lifetime cap of \$25,000. The deferral of student loan payments during the COVID-19 emergency limited the use of the SLRP credit, and therefore the true cost of the new program is not clear. Having said that, the cost of the SLRP credit was approximately \$10 million more than the cost of the EOTC in tax years 2020 and 2021 and is expected to be more beneficial to taxpayers once the repayment of student loans is back to normal.
- **Improved Maine Dependent Exemption Tax Credit** makes the \$300 Dependent Exemption Tax Credit refundable for tax years beginning on or after

January 1, 2024 and indexes the credit to inflation beginning on January 1, 2025. Making the credit refundable will provide an additional \$20 million of tax relief in FY25 to low-income Maine residents with dependents.

Business Tax Credits

- **Low-Income Housing Tax Credit program** is the central financing program for affordable housing development and provides subsidy in the form of a federal tax credit to developers of affordable rental housing. Developers using funding must reserve a portion of the rental units for lower income renters. The tax credits provide approximately \$10 million annually in subsidy.
- **Dirigo Business Tax Credit** provides tax credits to businesses to train workers and invest in capital – an approach that will help address Maine’s labor shortage and attract new businesses to Maine. Under the new program, which takes effect in 2025, businesses that pay to train three or more workers in an approved employee training program – such as an internship or community college training – could receive a \$2,000 tax credit per worker trained. Furthermore, businesses across most of Maine could receive up to a 10 percent credit for a capital investment, or a 5 percent credit for York, Cumberland, and Sagadahoc counties. These credits are specifically targeted towards high-value sectors and industries – including manufacturing, agriculture, fishing, forestry, long-distance freight transportation, software publishing, and certain professional services like scientific research – to attract and expand high growth sectors for Maine. The Dirigo Business Tax Credit is estimated to provide nearly \$45 million of tax relief to businesses engaged in qualified business sectors beginning in FY26.
- **Repeal of Service Provider Tax on Healthcare.** Repealing the Service Provider Tax on healthcare services will resolve a longstanding dispute with the Federal government that dates back to a 2018 warning from the U.S. Centers for Medicare and Medicaid Services that the nearly 20-year-old tax was allegedly in violation of Federal law. This proposal repeals the tax and replaces the lost revenue with General Fund revenue to continue supporting the same level of MaineCare services. The repeal of this tax effective January 1, 2025, will result in an annual savings of \$36.8 million to the businesses providing these services and the healthcare consumers receiving the services.

Taken together, the increase in the total anticipated direct tax relief to Maine people provided through the initiatives described above is equal to \$285 million for Fiscal Year 2025. Broken down by initiative in FY25, this equals: \$84 million through the expanded the Property Tax Fairness Credit; \$40.5 million through the Homestead Exemption; \$99 million through the expanded Pension Deduction; \$40 million through the expanded Earned Income Tax Credit; and \$20 million through the Dependent Exemption Tax Credit. This tax relief will continue into the FY2026-27 biennium and be increased by approximately \$90 million of biennial tax

relief because of the new Dirigo Business Tax Credit, \$73.6 million based on the repeal of the Service Provider Tax on healthcare services, and any impact of the Low Income Housing Tax Credit program.

The State Standard Deduction

Additionally, after many years of conforming to the federal standard deduction, the State of Maine created its own in 2016, essentially doubling the federal amount – a move that the Federal government later followed through the 2017 Tax Cuts and Jobs Act. The State then conformed to the Federal tax code, linking the deductions for the sake of consistency and simplicity. The Federal increase in the standard deduction is currently scheduled to expire for tax years beginning after December 31, 2025.

In the recently enacted biennial budget, the Governor and Legislature approved the continued doubling of the Federal Standard Deduction, agreeing to preserve the higher State Standard Deduction to continue delivering tax relief for Maine people.

Maintaining the State Standard Deduction will prevent a tax increase that would have resulted in approximately \$350 million for Fiscal Years 2026-2027 for many middle-class Mainers. This means that the May 1, 2023 revenue forecast of \$11.6 billion for that biennium immediately became \$11.25 billion.

It also means that, if taken with the other initiatives passed, the State of Maine will be providing more than half a billion per year in tax relief by Fiscal Year 2026-27.

This structural tax relief is in addition to Governor Mills and the Legislature returning a total of nearly \$1.3 billion to Maine people: \$398 million through the [Emergency Winter Energy Relief \\$450 checks](#), \$747 million through the [\\$850 inflation relief checks](#) and \$149.8 million through the [\\$285 disaster relief payments](#).

Also of Note: In addition, in Public Law 2023, Chapter 189, the State has lessened General Fund yearly revenue by automatically diverting an estimated \$100 million to the Highway Fund by dedicating 40 percent of the 5.5 percent sales tax remitted by new and used automobile dealers registered with the Bureau of Motor Vehicles, and 40 percent of sales and use taxes collected by the Bureau of Motor Vehicles, automatically to the Highway Fund.

Direct Property Tax Relief	FY19	FY25	Increase from 2019 vs 2025
Property Tax Fairness Credit	\$27.5 million	\$111.5 million	\$84.0 million
Benefit for Disabled Veterans			
Homestead Exemption	\$64.5 million	\$105.0 million	\$40.5 million
State Property Tax Deferral Program		\$1.5 million	\$1.5 million
Total Direct Property Tax Relief	\$92.0 million	\$218.0 million	\$126.0 million
Additional Tax Relief for Low and Middle Income			
Earned Income Tax Credit	\$10 million	\$50 million	\$40.0 million
Pension Deduction	\$32 million	\$131 million	\$99.0 million
Student Loan Replacement Tax Credit			TBD
Maine Dependent Exemption Tax Credit	\$60 million	\$80 million	\$20.0 million
Additional Tax Relief for Low and Middle Income			\$169.0 million
Total Direct Tax Relief Increase from 2019-2025			\$285.0 million
Indirect Property Tax Relief			
Municipal Revenue Sharing	\$74.1 million	\$263.5 million	\$189.4 million
Education Funding (55% of K-12)	\$1.098 billion	\$1.395 billion	\$297.0 million
Total Indirect Property Tax Relief	\$1.172 billion	\$1.658 billion	\$486.0 million
Business Tax Credits <i>estimates for 2026-2027</i>			
Low Income Housing Tax Credits <i>for 2026-2027</i>			\$20.0 million
Dirigo Business Tax Credit <i>for 2026-2027</i>			\$90.0 million
Service Provider Tax on Healthcare <i>for 2026-2027</i>			\$73.6 million
Total Business Tax Credits <i>estimates for 2026-2027</i>			\$183.6million

Note: The increase in tax relief between FY19 and FY25 can be attributed to:

- 1) the policy changes implemented by the Mills Administration and the 130th and 131st Legislatures, and
- 2) natural growth of the programs.

For example, if the level of Municipal Revenue Sharing percentage stayed at 2 percent, the estimated distribution for FY25 would be \$108 million. The effort of the Mills Administration and the Legislature to restore Municipal Revenue Sharing to the full 5 percent will mean a total of \$263.5 million to cities and towns in FY25, an additional \$155 million.

Similarly, the growth in Education Funding under by the Mills Administration is attributable to both the increasing cost of education and the increase in state funding to meet the longstanding obligation to fund 55 percent of the Essential Programs and Services for K-12 education. In FY19, the General Fund supported \$1.098 billion, or 49.77 percent of the Total Cost of Education as defined in statute. In FY25, General Fund support has grown to \$1.395 billion. If the state contribution had stayed at 49.77 percent that number would be \$1.283 billion. Increasing the state contribution to 55 percent added \$112 million to support the cost of education.