ADDENDUM TO THE OFFICE OF TAX POLICY REPORT ON MAINE TAX CONFORMITY AND THE RETROACTIVE PROVISIONS OF FEDERAL PUBLIC LAW NO. 119-211

The Office of Tax Policy previously prepared a report regarding the provisions of federal Public Law No. 119-211[1] (the "2025 Act") which applied to the 2025 tax year, and the Maine State income tax conformity implications of those provisions, including preliminary revenue estimates.[i] A main focus of the 2025 Act was to extend expiring provisions of federal Public Law No. 115–97 [2] (the "2017 Act").

This Addendum focuses on the provisions of the 2025 Act which did not have retroactive effect, but which the Legislature may wish to consider in developing a comprehensive approach to conformity with the federal changes moving forward. Further guidance on whether and to what extent to conform with the federal law changes for 2026 and future years—and even, potentially, whether to retroactively conform to some less urgent but more costly items in 2025—will follow in due course, when the State has more revenue and economic data to work with and when the Legislature is in a position to address Maine's overall response.

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[1] ACT To provide for reconciliation pursuant to title II of H. Con. Res. 14, also known as the "The One Big Beautiful Bill Act," or herein "the 2025 Act."

[2] Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, as known as the "Tax Cuts and Jobs Act" or the "TCJA," or herein "the 2017 Act."

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Individuals, 2025 Act provisions affecting:

Charitable Contributions

Itemizers:

Under prior law, individual taxpayers who itemized deductions had no floor for charitable contribution deductions—no matter how small the contribution, it was deductible. Under the 2025 Act, a taxpayer may only deduct contributions exceeding 0.5% of the taxpayer's "contribution base" (which is, with minor modifications, Federal AGI (FAGI)). For example, a taxpayer with FAGI of $100,000 who contributes $1,000 to charities and itemizes deductions would have a floor of $500 ($100,000 x 0.5%) and would only be entitled to deduct $500 in charitable contributions. Excluded amounts can be carried forward.

Similarly, under prior law, there is a cap on the amount of a taxpayer's contribution base that can be deducted in any given year. The cap depends on the type of charities receiving the contributions; for "public charities," the cap is 50% of the taxpayer's FAGI. However, there was a special exception for tax years 2018 – 2025, providing that if individuals donate cash to public charities, the cap is 60%, rather than 50% of FAGI. The 2025 Act makes permanent the 60% ceiling for cash gifts to public charities.

Maine has traditionally conformed to most deductions of this sort. Decoupling from these federal changes would be complex: taxpayers would be required to calculate their charitable deduction under pre-Act law, modify their federal itemized deductions for the difference between the calculated amount and the actual deduction, and track deduction carryforwards separately for state and federal purposes. In terms of revenue impact, the extension of the 60% cap for cash gifts to public charities is expected to have a negligible cost to the state; the 0.5% floor would result in an increase in the amount of tax revenue retained in the General Fund of approximately $200,000 per year.

Non-Itemizers:

Under pre-Act law, taxpayers who elect the standard deduction (94% of taxpayers in 2022) may not deduct their charitable contributions. There was a temporary exception to this rule for tax years 2020 and 2021, during which even non-itemizers were allowed to deduct up to $300 ($600, if married). Under the 2025 Act, non-itemizers may deduct up to $1,000 ($2,000 for married taxpayers filing jointly) in charitable contributions in addition to the standard deduction. This will likely be a "below-the-line" deduction, which means it will not necessarily impact Maine tax law, although if Maine chooses to conform to the federal standard deduction going forward, and depending on federal form design, it is possible that this change, too, would flow through to their Maine returns.

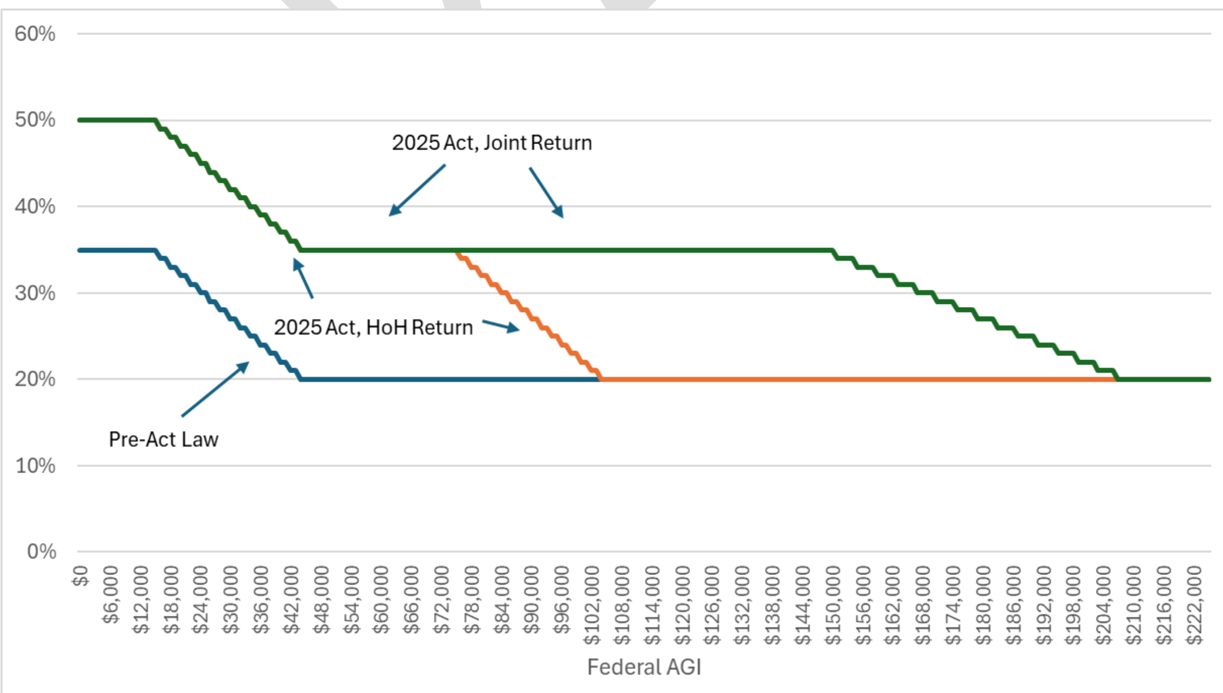
If so, the cost to Maine of conformity with this provision could be significant—as much as $9,000,000 in the 2027 fiscal year. How difficult it would be for Maine to decouple will depend, to a certain extent, on how the Internal Revenue Service (the "IRS") administers the change, but neither decoupling nor conforming should be particularly burdensome.

Dependent Care

Enhancement of child and dependent care tax credit

The federal government provides a nonrefundable tax credit for employment-related child and dependent care expenses. The credit equals the credit rate multiplied by qualifying expenses. Qualifying expenses are limited to $3,000 if the taxpayer has one qualifying dependent and $6,000 if the taxpayer had two or more qualifying dependents. Under pre-2025 Act law, the credit rate was 35% subject to an income based phaseout, with a minimum credit rate of 20%. The 2025 Act increases the credit rate by 15 percentage points for FAGI under $150,000 (married joint) or $75,000 (other). As income rises above these cutoffs, the difference between the new and old and new credit rate narrows until they equal each other. A comparison of credit rates between pre-Act law and the Act is shown in the figure below.

Figure 1: Federal Child and Dependent Credit Rate



Maine law provides a child and dependent care credit equal to 25% of the federal credit. The Maine credit rate is doubled for expenditures at providers with a Step 4/Star 5 Quality Certificate issued by the Department of Health and Human Services. The Maine credit is refundable up to $500 for Maine residents. Because the Maine credit "piggybacks" on the federal credit, updating the conformity date will increase the revenue loss from the Maine credit. The annual revenue loss is estimated to be approximately $1.7 million per year beginning in fiscal year 2027.

Decoupling from the changes to the federal credit would require taxpayers to recalculate the federal credit under pre-2025 Act Law and would be relatively complex compared to other available options.

Enhancement of the dependent care assistance program

Under the Code, gross income of employees does not include some costs paid or incurred by an employer for dependent care assistance under a federally-qualified dependent care assistance program. Prior to the 2025 Act, the amount of dependent care payments that could be excluded from income was capped at $5,000 (or $2,500 for a married individual filing separately). The 2025 Act increased that amount to $7,500 (or $3,750 for married individuals filing separately) for tax years beginning after December 31, 2025.

The cost to Maine of conformity to this provision would be relatively modest--approximately $400,000 per year. Decoupling from the federal treatment would require a new subtraction modification on the Maine income tax return, creating a new but manageable administrative burden for taxpayers and MRS.

Exclusion for employer payments of student loans

The Code allows employers sponsoring "qualified educational assistance programs" to make payments of up to $5,250 per employee for certain "educational assistance" payments without the payment being treated as taxable income to the employee. Prior to the 2025 Act, a temporary provision allowed employers to make "eligible student loan repayments" on behalf of the employee and have them count as "educational assistance," and, as such, be excluded from the employee's gross income. That provision was slated to expire as of December 31, 2025. The 2025 Act made that provision permanent, and also created an inflation adjustment so that the maximum amount of excludable payments will increase annually going forward.

Conforming to this provision reduces state revenue by approximately $1.1 million annually. Decoupling from the provision would be logistically challenging, because employees would be required to adjust their Maine Adjusted Gross Income ("AGI") to reflect the amount of the federal exclusion for educational assistance allocable to loan repayment. That could be even more challenging in a circumstance where an employer makes some payments in connection with loan repayment and others in connection with other qualifying forms of educational assistance, since it is unlikely that employers will be required to break out the categories of educational assistance payments made on their employees' W-2s.

Extension and modification of limitation on deduction and exclusion for moving expenses

Prior to 2018, taxpayers could deduct expenses incurred for long-distance work-related moves. The 2017 Act suspended that deduction for most taxpayers for the period 2018-2025. The only exception, during that period, was for active-duty military members moving due to a permanent change of station. The 2025 Act permanently eliminated the deduction, except for active-duty members of the Armed Forces, and expanded the deduction for military personnel to include employees and appointees of U.S. intelligence agencies.

Permanently eliminating the deduction for non-military moving expenses will save Maine approximately $650,000 per year. Expanding the exception to cover intelligence workers would have a negligible effect on state revenues. Decoupling from the federal treatment to allow moving expense deductions would require Maine to develop procedures and authorities for determining qualifying expenses, eligibility criteria, and so forth, as well as dedicating administrative resources to auditing moving-related deductions. The challenge would not be insurmountable, but following the federal standard would be significantly more administratively convenient.

Extension and modification of limitation on deduction for qualified residence interest

Under the Code, taxpayers who itemize deductions are allowed to deduct "qualified residence interest," which is interest on a loan incurred by a taxpayer for the purpose of acquiring a "qualified residence" (i.e. the taxpayer's principal residence or one other residence). Prior to the 2017 Act, taxpayers could deduct interest on up to $1,000,000 of qualified residences (or $500,000 for unmarried taxpayers or married taxpayers filing separately). The 2017 Act reduced that figure to $750,000 ($375,000 for married taxpayers filing separate returns or single taxpayers) through January 1, 2026. The 2025 Act makes permanent the $750,000 cap and permanently treats certain mortgage insurance premiums on acquisition indebtedness as qualified residence interest.

Conforming to this provision increases state revenue by approximately $200,000 annually relative to the baseline of returning to the $1,000,000 cap. Failing to conform would increase complexity as taxpayers would have to work through the process of increasing the deductible amount by the difference between the (federally deductible) interest on the first $750,000 in mortgage interest and the lesser of the taxpayer's actual qualified residence interest or $1,000,000. It would also create significant administrative costs for taxpayers and the State. Costs would be associated with identifying the non-conforming amounts, accounting for them, changing forms and systems to track it, auditing taxpayers, enforcement, and so on. Additional M.R.S. positions would be needed to administer the non-conformity.

Termination of miscellaneous itemized deductions other than educator expenses

Prior to the 2017 Act, taxpayers who itemized deductions were eligible to deduct a number of items as "miscellaneous itemized deductions." Familiar miscellaneous itemized deductions include certain unreimbursed employee expenses, certain fees relating to managing investments, and fees associated with preparing tax returns. The 2017 Act suspended miscellaneous itemized deductions for tax years 2018 through 2025; they were scheduled to return for tax years beginning after 2025. The 2025 Act permanently terminates miscellaneous itemized deductions. However, the 2025 Act also creates a miscellaneous itemized deduction, available for tax years beginning after December 31, 2025, for unreimbursed employee expenses incurred by certain eligible educators (specifically, K-12 teachers, instructors, school counselors, certain sports administrators and coaches, principals, and aides working in schools for more than 900 hours during the school year). The deduction is available for equipment and supplementary materials used by eligible educators as part of instructional activities.[3]

Should Maine conform to the termination of miscellaneous itemized deductions except for qualified educational expenses, it would increase states revenues by approximately $1,500,000 per year. Failure to conform would create significant, though not insurmountable, additional complexity for Maine tax administration and taxpayers.

Miscellaneous

Other less significant provisions of the 2025 Act affecting individuals are the: extension and modification of limitation on casualty loss deduction, limitation on tax benefit of itemized deductions, extension and modification of qualified transportation fringe benefits, extension and modification of limitation on wagering losses, extension and enhancement of increased limitation on contributions to ABLE accounts, extension of rollovers from qualified tuition programs to ABLE accounts permitted, extension of treatment of certain individuals performing services in the Sinai Peninsula and enhancement to include additional areas, partial exclusion from income of interest on loans secured by rural or agricultural real property, extension and modification of the exclusion from gross income of student loans discharged on account of death or disability, Trump accounts and contribution pilot program.

Corporate and Business, 2025 Act provisions affecting

[3] This deduction applies to amounts in excess of those expenses allowed as an above the line deduction pursuant to the 2017 Act, which permitted all qualifying educators, whether or not they itemized, to deduct up to $300 in unreimbursed qualified classroom expenses.

Coordination of business interest limitation with interest capitalization provisions.

Section 163(j) limits the amount of interest businesses may deduct. Under current law, before calculating the amount of the limit, taxpayers may apply rules subjecting components of their interest expense to disallowance, capitalization, and other rules. Thus, any interest that must be capitalized is excluded from the calculation of the amount of interest subject to the disallowance. The 2025 Act changes this rule for tax years beginning after 2025, providing that the limit on the amount of deductible interest is calculated before the application of interest capitalization rules. After applying those rules, allowable interest is allocated first to the portion of the interest that is capitalized, and only the remainder can be deducted.

Failing to conform to this provision would be complicated, but possible, because it would require taxpayers to separately compute their deductible interest for Maine and federal purposes, and would have separate amounts of capitalized interest on their federal and state books. New addition and subtraction modifications would be required on the Maine corporate income tax return. Conforming would increase state revenue by approximately $640,000 in fiscal year 2027 and $800,000 in fiscal year 2029 relative to the current baseline.

Definition of adjusted taxable income for business interest limitation.

Section 163(j) limits the amount of interest businesses may deduct to 30% of adjusted taxable income (ATI). The 2025 Act excludes Subpart F and net CFC tested income (and any associated IRC Section 78 gross up) from ATI, thereby reducing the allowable deduction for affected taxpayers.

Similar to the other changes to the business interest limitation discussed above, decoupling from these provisions would increase the complexity for taxpayers and the State in calculating deductible interest, requiring taxpayers to track disallowed interest over time until it became deductible. Conforming to this provision would raise approximately $900,000 in fiscal year 2027.

1-percent floor on deduction of charitable contributions made by corporations

Corporations, like individuals, may deduct charitable contributions under certain circumstances. For tax years beginning on or after January 1, 2026, the 2025 Act creates a new 1% floor on gross income for corporate deductible charitable contributions. For example, a corporation with $1 billion in gross income can only deduct contributions exceeding $10 million. Furthermore, under both pre-2025 Act and 2025 Act Law, the corporation's charitable deduction is limited to 10% of gross income, or $100 million in this example. Contributions disallowed due to either the floor or ceiling on the contribution deduction may be carried forward for up to five years.

Conforming to this provision would increase state revenue by approximately $2,000,000 per year starting in fiscal year 2027. Decoupling would create additional administrative complexity for taxpayers, who would be required to separately track charitable contributions for federal and state purposes, although it would give them modest savings on their Maine corporate income taxes.

Excessive employee remuneration from controlled group members and allocation of deduction

Under the law as of December 31, 2024, Code section 162(m) limited the amount that publicly held corporations could deduct for compensation of certain top executives to $1 million per year. The 2025 Act expands the reach of this section by including compensation paid to such executives by other members of the corporate controlled group as well as its “affiliated service group.” The Act also has rules regarding how to allocate the deduction between members of the controlled group.

Conforming to the provision would increase state revenue by approximately $1,000,000 annually. Nonconformance would require instructing publicly-traded taxpayers filing returns in Maine to increase the amount of their deductible salary payments, which would be moderately complicated but achievable.

Exception to percentage of completion method of accounting for certain residential construction contracts

Under prior law, most developers of multi-family residential housing were required to calculate their federal income using the “percentage of completion” method of accounting, which provides that for multi-year construction projects, income will be recognized (and, therefore, deductible costs will be treated as incurred) prior to completion of construction, even if there are no corresponding revenues to offset the (theoretical) income as the project came closer and closer to completion. There was another, more generous method of accounting, called the “completed contract” method, by which income would only be recognized when the project was placed in service, but this method was only available to relatively small taxpayers, and was generally only available for construction projects relating to developments with four or fewer residential units.

The 2025 Act expands eligibility for the “completed contract” method, making it available for all developers, regardless of size, with respect to contracts entered into after July 4, 2025. The 2025 Act includes a variety of requirements for qualifying projects, but is generally much more permissive than the old, four-unit test.

Failing to conform to this provision would be very complicated as a matter of tax administration,[4] and would be cumbersome for developers, who would have to report income at different times for state and federal purposes. We estimate that conforming would reduce state

[4] There is also a reasonable argument that, under the Maine law regarding treatment of federal changes to accounting methods, this federal change would affect the Maine tax liability of such taxpayers without the need for conformity legislation.

income tax revenue by approximately $400,000 in 2027. The revenue loss declines over time as this provision affects the timing, but not the amount, of income recognition.

Expansion of Qualified Small Business Stock Gain Exclusion

Under current law, noncorporate taxpayers who own “qualified small business stock” for more than five years are potentially eligible to exclude some or all of the gain they realize on the sale or exchange of that stock from gross income. Generally, qualified small business stock is stock in small companies, usually start-ups, and the stock must be acquired directly from the company (often, although not necessarily, in exchange for services performed or early investments). The amount of excludable gain was limited to the greater of $10 million (for married taxpayers filing jointly; $5 million for others) or ten times the taxpayer’s adjusted basis in such stock. Stock held for less than five years from issuance was not eligible for any such exclusion.

The 2025 Act makes several changes to this system. First, it allows taxpayers to exclude a portion of their gain on stock acquired after July 4, 2025, and held for fewer than 5 years. If such qualified small business stock has been held for 3 years, taxpayers may exclude 50% of the gain; if it has been held for 4 years, they may exclude 75% of the gain. The 2025 Act also substitutes $15 million for $10 million for purposes of the cap on excludable amount and provides that figure will be adjusted for inflation going forward.

Current law provides that a “qualified small business” is one which, among other requirements, has aggregate gross assets that do not exceed $50 million at any point before or immediately after the issuance of the stock. The 2025 Act increases that amount to $75 million and provides an inflation adjustment going forward.

Conforming to this change would have a minimal state revenue impact for the next three years because only stock issued after July of 2025 qualifies under the new rules, and because none of the new rules would apply to any stock sold before July 2028. The revenue loss is estimated to eventually grow to $3 - $4 million per year. Decoupling would require a new addition modification; the amount of the addition modification would be straightforward to calculate.

Extension and enhancement of paid family and medical leave credit

The 2017 Act created a credit for payments made under a qualifying paid family and medical leave plan. This was a temporary credit which was extended several times and was scheduled to expire at the end of 2025. The State responded to this federal credit by enacting a State income tax credit equal to the federal credit with respect to wages paid to employees based in the State.

The 2025 Act makes the credit permanent and, more importantly, significantly revises the operational rules to make offering qualifying plans more attractive for employers. Among other changes, beginning in 2026, an employer may claim a credit for a percentage of the premiums paid or incurred during the tax year for insurance policies in force during the tax year that provide family and medical leave coverage, rather than claiming the credit only for wages paid to qualifying employees actually on leave.

There is significant overlap between the purposes of this credit and those of the recently enacted State Paid Family Medical Leave Act (PFMLA), and the interaction between the two should be carefully considered. The Maine credit is equal to the portion of the federal credit attributable to wages paid to employees based in the State during the year in question. The federal credit does not apply to leave paid by a state or local government or required by state or local law. Whether the federal credit would be available to companies that "opt out" of PFMLA by qualifying through a private plan instead of participation in the State PFMLA plan is currently under review, as is the resulting fiscal estimate. If the federal credit is available to companies that elect PFMLA "opt out" plans, the federal credit would both increase the State credit fiscal cost (unless the State credit were otherwise amended) and provide an incentive to opt-out of the PFMLA State plan.

International

Global Intangible Low-Taxed Income (GILTI) / Net CFC Tested Income (NCTI)

Under the 2017 Act, U.S. shareholders of controlled foreign corporations ("CFCs") must include their pro rata share of a CFC's global intangible low taxed income (GILTI) in gross income, even if such amount is not actually distributed to the U.S. shareholder. The calculation of GILTI included a deduction of 10% of qualified business asset investment (QBAI), theoretically removing the portion of income attributable to tangible business assets and leaving that attributable to intangible assets. This provision is generally intended to curtail tax avoidance achieved by locating income-producing intangible assets in low-tax jurisdictions. The shareholders are allowed a deduction for a portion of the GILTI income (starting at 50% dropping to 37.5% in tax year 2026) and are allowed to apply 80% of the foreign tax credits generated by those CFCs (deemed foreign tax credits, or "FTC"s) against the federal tax.

Maine conformed to the taxation of GILTI but decoupled from the federal GILTI deduction – instead applying its own 50% deduction based on the historical application of the deduction to dividends and constitutional considerations. In addition, Maine, like other states, does not allow the application of foreign tax credits.

The 2025 Act makes several changes to GILTI. First, it renames the income to Net CFC Tested Income (NCTI). Second, it removes the deduction for QBAI. Third, it adjusts the calculation of deemed FTCs. And fourth, it allows the application of 90%, instead of 80%, of those deemed FTCs. Because Maine does not conform to the federal deduction or the application of FTCs (or related "gross-up" income), those changes do not create conformity issues for M.R.S. or the State.

The removal of the QBAI deduction in calculating GILTI/NCTI does not have direct conformity implications. However, the taxation of GILTI/NCTI is highly complex and both taxpayers and the State rely on following the federal calculations as closely as possible. Decoupling from this provision would greatly increase the complexity of these provisions, requiring taxpayers to perform parallel calculations at the federal and State level using differing rules. Conforming would raise state revenue by approximately $1.8 million annually.

Other International Tax Reforms

Permanent extension of look-thru rule for related controlled foreign corporations

The 2025 Act made permanent IRC §954(c)(6) look-through for Subpart F income received or accrued from a CFC from another CFC. This rule preserves the ability to look through to the underlying income of the CFC payor to determine if it would have been taxable as Subpart F income at that level. This look-through treatment was originally enacted as a temporary measure in the Tax Relief Extension Reconciliation Act of 2005 and extended multiple times, most recently by the 2020 Taxpayer Certainty and Disaster Tax Relief Act. Departing from federal treatment of the taxation of CFCs would create substantial compliance and monitoring complexity for Maine and Mainers, with little direct policy benefit; the fiscal impact would be difficult to estimate, but new MRS employees would likely be needed to administer the changes.

Repeal of election for 1-month deferral in determination of taxable year of specified foreign corporations

The 2025 Act repeals the IRC § 898(c) election. As a result, CFCs must now conform to the majority U.S. shareholder's tax year (effective for CFC years beginning after Nov. 30, 2025) without the ability to elect a tax year that begins a month before the taxable year of the majority U.S. shareholder. Decoupling from this treatment would introduce significant complexity to affected taxpayers and administrative challenges for the State, and would be unlikely to have significant revenue impacts.

Restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules

The 2025 Act again prohibits downward attribution from foreign persons to U.S. persons under IRC §958(b)(4), which had been repealed under the 2017 Act. Simultaneously, new IRC §951B introduces "foreign controlled foreign corporations" (FCFCs) and "foreign controlled U.S. shareholders" (FCUSs), applying constructive ownership rules through a foreign parent.

Modifications to pro rata share rules

The 2025 Act now requires a U.S. shareholder that owned CFC stock at any time during the year to include its pro rata share of Subpart F and GILTI income (previously measured only based on year end ownership) pursuant to IRC § 951(a). Decoupling from the federal treatment of this inclusion would be very complicated for taxpayers and tax administrators.

Modification and extension of limitation on excess business losses of noncorporate taxpayers

The 2017 Act introduced a limitation on the ability of noncorporate taxpayers (typically, owners of pass-through entities such as S corporations and LLCs) to deduct business losses against non-business income. Under the limitation, to the extent that an individual taxpayer's business-related deductions exceed the sum of (a) their total business income and (b) a "threshold amount" (under prior law, $626,000 for joint filers in 2025/ $313,000 for others), they are not entitled to use the excess in the year of the losses; instead, the excess becomes a net operating loss, available for use in future years.

The excess business loss limitation was scheduled to expire in 2028. However, the 2025 Act made it permanent and made an adjustment to the inflation adjustment calculation that slightly reduces the limit relative to pre-Act law.

Conforming to the excess business loss limitation changes initially increases state revenues by an estimated $150,000 - $200,000 from the reduction in the limit relative to pre-2025 Act Law. However, beginning in tax year 2029, the permanent extension of the limit is estimated to increase state revenue relative to pre-2025 Act law by $3 million or more per year.

Decoupling from the changes to excess business loss limit would require taxpayers to separately calculate business losses, including loss carryforwards, for state and federal tax purposes. New addition and subtraction modifications would be required on the individual income tax return.

Permanent renewal and enhancement of opportunity zones

The 2017 Act created tax incentives for "Opportunity Zones," which were zones, designated by the governors of each state, with median incomes of less than 80% of area or state median income. Investors who sold property producing capital gains could roll those gains into an Opportunity Zone investment and defer recognition of the gain; further, if the investment was held long enough, the taxpayer's basis in the investment was increased, effectively permanently excluding some of the capital gain from taxation. The provision creating Opportunity Zones was scheduled to expire on December 31, 2026.

The 2025 Act makes several changes to Opportunity Zones. First, the provision is made permanent. Second, a new category of Opportunity Zones—zones in rural communities—get special, additional tax benefits, principally a 30% basis step-up for qualified investments held for more than five years. Other provisions of the Opportunity Zone program were made stricter. Going forward, qualifying zones will have to be at or below 70% (rather than 80%) of median income, and enhanced reporting requirements (including penalties for non-compliance) are imposed on Opportunity Zone developers. Overall, the tweaks to the program are likely to disproportionately benefit more rural states and less wealthy communities.

Conforming to the federal treatment of investments affects the timing of income recognition (by allowing deferral of gains that would otherwise be immediately recognized) and the amount of income recognition (by increasing the taxpayer's basis in the investment, and exempting a portion of the eventual gains). The initial state revenue loss, estimated at $5.25M in FY 2027 and $9 to $10M in fiscal years 2028 and 2029, will be higher than the revenue loss in later years, both because it covers the peak investment years for the upcoming 10-year cycle and because the capital gains deferral has not ended for any new investment made during these tax years. The Congressional Joint Committee on Taxation predicts that the federal revenue loss from Opportunity Zones falls 46% in federal fiscal year 2030 and that these policies slightly increase revenues in federal fiscal years 2033 and 2034.

Decoupling from the federal program would be difficult and cumbersome, although possible. It would also reduce the relative benefits to developers investing in Maine communities compared to communities in other states.

Treatment of payments from partnerships to partners for property or services

Under current law, the IRS has the authority to issue regulations permitting it to recharacterize certain disguised sales of property to partnerships, as well as certain transactions where distributions or allocations are directly or indirectly made to a partner nominally in consideration of services performed for the partnership, but where the allocation and distribution are more properly characterized as a transaction between the partnership and the partner acting in a capacity other than a partner.

The IRS has never implemented regulations outlining how this would work, and therefore under current law, there is an argument that such transactions cannot be recharacterized. The 2025 Act eliminates the language requiring the IRS to issue regulations in order to have this authority, so field agents may now challenge the characterization of such partner/partnership transactions where they find the economic substance does not match the terms used by the parties.

Maine has not developed its own partnership audit standards and would be hard pressed to perform this sort of work; not following the IRS's characterization of partner/partnership transactions would create significant administrative burdens. Conforming would be expected to generate approximately $1.5 million per year in additional tax revenues.[5]

Miscellaneous

Other, less significant provisions of the 2025 Act affecting corporations and businesses are the: exceptions from limitations on deduction for business meals, tax credit for contributions of individuals to scholarship granting organizations, nonprofit community development activities in

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[5] There is a technical argument to be made that formally, conformity legislation would not be required here for federal determinations made under this provision to be applicable at the Maine level as well.

remote native villages, adjustment of charitable deduction for certain expenses incurred in support of Native Alaskan subsistence whaling, restoration of the taxable REIT subsidiary asset test, termination of energy efficient commercial buildings deduction, and termination of cost recovery for energy property.

OBBBA: Estimated Revenue Impact (Millions) For Non-Retroactive Tax Conformity Items

	Fiscal Year			
Provision	2026	2027	2028	2029
0.5% Floor on Deduction of Contributions made by Individuals	$0.00	$0.20	$0.20	$0.20
Permanent and Expanded Reinstatement of Partial Deduction for Charitable Contributions of People who do not Itemize [1]	-$0.78	-$9.00	-$8.11	-$8.39
Enhancement of Child and Dependent Care Credit	$0.00	-$1.76	-$1.75	-$1.70
Enhancement of Dependent Care Assistance Program	-$0.16	-$0.36	-$0.38	-$0.40
Exclusion for Employer Payments of Student Loans	-$0.34	-$1.10	-$1.08	-$1.16
Extension of Limitation on Deduction and Exclusion for Moving Expenses	$0.00	$0.62	$0.64	$0.66
Extension and Modification of Limitation on Deduction for Qualified Residence Interest	$0.00	$0.21	$0.21	$0.21
Termination of Non-Education Miscellaneous Itemized Deductions	$0.00	$1.50	$1.50	$1.50
Miscellaneous (Individual) [2]	$0.00	-$0.14	-$0.14	-$0.14
Coordination of Business Interest Limitation with Interest Capitalization Provisions	$0.02	$0.64	$0.69	$0.80
Definition of Adjusted Taxable Income for Business Interest Limitation	$0.00	$0.90	$0.85	$0.75
1% Floor on Deduction of Charitable Contributions Made by Corporations	$0.11	$2.03	$2.08	$1.96
Excessive Employee Remuneration	$0.12	$1.01	$1.07	$1.14
Exception to Percentage of Completion Method of Accounting for Certain Residential Construction Contracts	-$0.33	-$0.40	-$0.27	-$0.17
Expansion of Qualified Small Business Stock Gain Exclusion [3]	$0.00	$0.00	$0.00	-$0.15
Paid Family and Medical Leave Credit [4]	Potentially Large Revenue Loss			
Broadening of Net CFC Tested Income Inclusion	$0.09	$1.63	$1.76	$1.82
Other International Tax Reforms [5]	$0.00	$0.09	$0.06	$0.01
Modification and Extension of Limitation on Excess Business Losses of Noncorporate Taxpayers	$0.05	$0.23	$0.15	$0.60
Permanent Renewal and Enhancement of Opportunity Zones [6]	$0.00	-$5.25	-$9.76	-$9.62
Treatments of Payments from Partnerships to Partners for Property or Services	$1.14	$1.58	$1.51	$1.23
Miscellaneous (Other) [7]	-$0.01	-$0.11	-$0.15	-$0.18
Total Non-Retroactive Provisions Cost	**-$0.09**	**-$7.48**	**-$10.92**	**-$11.03**

1. The revenue loss applies only if Maine law changes to reestablish the link between the Maine and Federal standard deductions starting in tax year 2026.

2. Other less significant provisions of the 2025 Act affecting individuals are the: Extension and modification of limitation on casualty loss deduction, limitation on tax benefit of itemized deductions, extension and modification of qualified transportation fringe benefits, extension and modification of limitation on wagering losses, extension and enhancement of increased limitation on contributions to ABLE accounts, extension of rollovers from qualified tuition programs to ABLE accounts permitted, extension of treatment of certain individuals performing services in the Sinai Peninsula and enhancement to include additional areas, extension and modification of exclusion from gross income of student loans discharged on account of death or disability, trump accounts, and contribution pilot program.

3. The annual revenue loss through fiscal year 2029 is minimal due to holding period requirements. The revenue loss is estimated to eventually grow to $3 - $4 million per year.

4. Potentially large revenue loss if private "opt-out" plans qualify for federal credit. There will also be an initial small revenue loss resulting from years 2023 and earlier.

5. Includes the following provisions: Permanent extension of look-thru rule for related controlled foreign corporations, repeal of election for 1-month deferral in determination of taxable year of specified foreign corporations, restoration of limitation on downward attribution of stock ownership in applying constructive ownership rules, and modifications to pro rata share rules.

6. The revenue loss in fiscal years 2027 – 2029 will be higher than the revenue loss in later years both because these years cover the peak investment years for the upcoming 10-year cycle and because the capital gains deferral has not ended for any new investment vintage in these tax years. The Joint Committee on Taxation predicts that the federal revenue loss from Opportunity Zones falls 46% in federal fiscal year 2030 and that these policies slightly increase revenues in federal fiscal years 2033 and 2034.

7. Other less significant provisions of the 2025 Act affecting corporations and businesses are the: Exceptions from limitations on deduction for business meals, tax credit for contributions of individuals to scholarship granting organizations, additional expenses treated as qualified higher education expenses for purposes of 529 accounts, certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts, nonprofit community development activities in remote native villages, adjustment of charitable deduction for certain expenses incurred in support of Native Alaskan subsistence whaling, restoration of taxable REIT subsidiary asset test, termination of energy efficient commercial buildings deduction, and termination of cost recovery for energy property.

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[i] Miscellaneous provisions of the 2025 Act that do not have Maine State income tax conformity linkages: References to the Internal Revenue Code of 1986, etc., Extension and enhancement of reduced rates, Extension and enhancement of increased child tax credit, Extension and enhancement of deduction for qualified business income, Extension and enhancement of increased estate and gift tax exemption amounts, Extension of increased alternative minimum tax exemption amounts and modification of phaseout thresholds, Extension and enhancement of savers credit allowed for ABLE contributions, Enhancement of advanced manufacturing investment credit, Modifications related to foreign tax credit limitation, Modifications to determination of deemed paid credit for taxes properly attributable to tested income, Sourcing certain income from the sale of inventory produced in the United States, Modification of deduction for foreign-derived deduction eligible income and net CFC tested income, Determination of deduction eligible income, Extension and modification of base erosion minimum tax amount, Enhancement of employer-provided child care credit, Enhancement of adoption credit, Recognizing Indian tribal governments for purposes of determining whether a child has special needs for purposes of the adoption credit, Additional expenses treated as qualified higher education expenses for purposes of 529 accounts, Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts, Modification of excise tax on investment income of certain private colleges and universities, Expanding application of tax on excess compensation within tax-exempt organizations, Permanent enhancement of low-income housing tax credit, Permanent extension of new markets tax credit, Permanent increase in limitation on cover over of tax on distilled spirits, Repeal of revision to de minimis rules for third party network

transactions, Increase in threshold for requiring information reporting with respect to certain payees, Reduction of transfer and manufacturing taxes for certain devices, Treatment of capital gains from the sale of certain farmland property, Termination of green new deal subsidies (credits), Enhancement of America-first energy policy, Modifications to de minimis entry privilege for commercial shipments, Excise tax on certain remittance transfers, Enforcement provisions with respect to COVID-related employee retention credits, Social security number requirement for American Opportunity and Lifetime Learning credits, and Task force on the replacement of Direct File.