



One Big Beautiful Bill Act (O3B) Impacts on Maine

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The One Big Beautiful Bill Act (OB3)

- P.L. 119-21
- Signed July 4, 2025
- Provisions effective TYB 2026, 2025, and a few retroactive to prior years
- A comprehensive report is available on the Office of Tax Policy's website



TL:DR

- Maine “conforms” with most provisions
- Conformity phased in for Research and Development, standard deduction.
- Maine specifically decoupled from:
 1. Accelerated depreciation for qualified production property
 2. Immediate expensing of R&D expenses for large businesses
 3. Increased standard deduction
 4. Opportunity Zone treatment going forward
 5. Qualified Small Business Stock excludability going forward.



Tax Conformity: Engineering

- **36 MRSA § 111.1-A: Code.** “Code” means the United States Internal Revenue Code of 1986 and amendments to that Code as of December 31, ~~2024~~ 2025.
- This is primarily done by adopting federal definitions of “adjusted gross income.” Thus conformity generally relates to above-the-line items of income.
- This is “static” or “fixed-date” conformity. As opposed to “rolling” conformity.
- Why does Maine use fixed-date conformity? See the Maine Constitution, Art. IV, §9: “The Legislature shall never, in any manner, suspend or surrender the power of taxation.”



Why Conform at All?

- Every state with an income tax models it on federal law concepts and definitions to some extent.
- Simplifies return filing
- Simplifies tax administration



So why not fully conform?

- Can be extremely expensive
- Can reflect national rather than State taxing/spending priorities
- Arguably infringes the Legislature's constitutional mandate.
- Accordingly, traditionally when there are big changes in federal tax law, Maine picks and chooses what to conform to and what to decouple from, with an eye on ease of administration and budget priorities.



Poll Question



Time and the Physics of Conformity

To be a tax professional is to always have an eye on the calendar.

- 12/31: income tax year closes (cash basis/individuals)
- Mid-January: tax filing season begins
- April 15: individual returns due
- Mid-July: begin developing forms for next year
- Late summer: next year's forms to printers/software developers



Whose Code is it Anyway?

Usually thinking about time is easy. Sometimes it's complicated.

- Legislative Session: January-May/June
- OB3: 7/4/2025. TCJA: 12/22/2017
- So under Maine law, the “Code” is “what the Code would have been, if Congress hadn’t changed it.” And your FAGI for federal purposes may be very different than your FAGI for Maine purposes. And the Legislature has to consider all changes, even if it’s out of session when they’re adopted.



Retroactive Conformity and P.L. 2025, ch. 336

New §5295: “When it appears to the Commissioner...that the Legislature *has not had the opportunity before [M.R.S.] begins processing returns for the most recently completed tax year* to conform or adjust Maine laws in response to federal income tax law changes affecting the tax year....*the Governor may direct the assessor to temporarily adjust, in a manner determined equitable by the Governor, the assessor’s administration of the tax year based on some or all of the federal income tax changes as the Governor may...determine, contingent on the future enactment by the Legislature of legislation that addresses the federal changes.*”



§5295, continued

- “The Governor, to the extent practicable, shall make the determination consistent with the intent of the Legislature in enacted Maine income tax laws and consider the budgetary implications...and the extent to which the determination...[eases] taxpayers’ compliance with, and [MRS’s] administration of, Maine income tax laws.”
- DAFS commissioner proposes in a report; various legislative leaders are informed as process moves along.
- Taxpayers must be notified that this treatment is subject to change, and that taxpayers may instead choose to wait for the Legislature to act.



OB3 Conformity and Tax Year 2025

- Pursuant to ch. 336, the Governor instructed the Assessor to administer the 2025 tax year largely in conformity with the changes of the OB3.
- The Legislature subsequently adopted conformity legislation generally consistent with these instructions.
- The projection is that conforming in this manner would result in a total revenue loss to Maine in 2025 of approximately \$13.5 million.



Retroactive Conformity Provisions

- Qualified disaster losses
- Qualified farm property
- Section 179 expensing
- Business Interest Deduction
- Small Business R&D expensing
- Miscellaneous



Retroactive Non-conformity Provisions

- R&D expensing for large taxpayers
- Accelerated Depreciation for Qualified Production Property
- Increase in Standard Deduction



Poll Question



R&D Expensing

- New Code Section 174A: allows immediate expensing of domestic research and experimental expenditures (including software development costs) paid or incurred in 2025 and subsequent years (alternatively, may amortize over 60 months).
- Restores pre-2017 treatment (which Maine conformed to)
- Contains a catch-up provision: certain small businesses may amend their 2022-2024 returns to retroactively apply the rule to expenses incurred during those periods



R&D Expensing, con't

- This restores prior treatment, and has strong economic and tax policy logic.
- The cost of full, immediate compliance would be enormous: approximately \$136 million in lost tax year 2025 revenues.
- Per mandate of ch. 336, Governor considered the budgetary implications of full conformity, in addition to the compliance/complexity costs of nonconformity.



R&D Expensing for Small Businesses

- Governor's recommendation: "small businesses" can amend 2022 through 2024 returns per new law.
- Legislature's ultimate decision: full, immediate conformity for "small businesses."
- "Small businesses:" follows federal definition: average annual gross receipts of \$31 million or less.



R&D Expensing for Large Businesses

- Full conformity to federal treatment phased in over 5 years.
- Large businesses add back to their Maine taxable income the amount of the federal §174A deduction multiplied by the “applicable percentage.”
 - 2025: 100%
 - 2026: 70% (except 100% for taxpayers opting ratable deduction over two years)
 - 2027: 50%
 - 2028: 30%
 - 2029: 10%



Poll Question



Accelerated Depreciation for QPP

- §168(n) allows taxpayers to take a 100% bonus depreciation deduction for “qualified production property” constructed between January 19, 2025 and December 31, 2029.
- QPP is MACRS nonresidential real property integral to production activities related to manufacturing, production or refining of tangible personal property.
- Essentially, QPP is temporarily treated as eligible for bonus depreciation.



QPP continued

- Maine has seldom conformed to Federal bonus depreciation.
- This is in many ways duplicative of the Dirigo credit.
- The Governor did not recommend conformity on QPP for 2025, and the Legislature decoupled for 2025 and future years.



Increase in Standard Deduction

- The OB3 increased the standard deduction by \$750 (\$1,500 for married taxpayers filing jointly) for 2025 and subsequent years.
- Maine had previously decoupled from the Federal standard deduction for tax years 2026 and forward (when the TCJA increased deduction was scheduled to phase out).
- Immediate, full conformity would have cost approximately \$31 million in foregone 2025 tax revenues.



Standard Deduction, con't.

- The Governor did not propose immediate conformity with the standard deduction. The Legislature opted to phase in conformity over two years.
- In 2026, Maine will treat the standard deduction as \$15,700/\$31,400 (plus additional amounts for aged/blind).
- In 2027 and subsequent years, Maine will fully conform.
- (subject to phase-out per 36 MRSA 5124-C(2))



Non-Retroactive Provisions

- The Legislature reviewed the Governor's proposals with respect to 2025, with the results we've discussed.
- Moving forward, the Legislature largely chose to conform with (the above-the-line portions of) the OB3.
- The Legislature decoupled from two provisions not directly relevant to the 2025 tax year: Qualified Small Business Stock and Opportunity Zone investment.



Qualified Small Business Stock

- Under pre-OB3 law, noncorporate taxpayers who own “qualified small business stock” for more than five years may exclude some or all of the gain they recognize on sale of that stock (usually up to \$10 million). A “qualified small business” was, among other things, a business with aggregate gross assets of not more than \$50 million.
- The OB3 does not change anything with respect to QSBS acquired prior to July 4, 2025.



QSBS, continued

- The OB3 provides that, with respect to stock acquired after July 4, 2025, taxpayers may exclude up to 50% of their gain on stock held for three years and 75% of the gain for stock held more than four years.
- It increases the excludable amount from \$10 to \$15 million, and provides it will be adjusted for inflation going forward.
- It also increases the amount of assets a qualified small business may have from \$50 to \$75 million.



QSBS, Continued

- The Legislature opted to decouple from the changes to QSBS rules. Thus Maine taxpayers who acquire QSBS in July of 2025 or later will be required to add back to their Maine taxable income the amount of federal gain excluded with respect to such stock.
- Maine taxpayers who acquired QSBS prior to the effective date of the new federal rule will not experience a change.



Opportunity Zones

- Under the 2017 TCJA, investors were eligible for certain gain exclusions and other benefits with respect to investments in Qualified Opportunity Zones.
- The program was set to expire on December 31, 2026.
- The OB3 made the program permanent and changed a number of substantive and procedural rules related to its operations with respect to investments made.
- I'm not going to go into them, because...



Decoupling from Opportunity Zones

- The Legislature opted to decouple from the Opportunity Zone program with respect to any OZ investments made after December 31, 2026.
- Note that this does not impact the ability of Maine taxpayers to invest in new Opportunity Zones, or the ability of developers to develop in Maine Opportunity Zones. It merely requires taxpayers to add back the amount of their OZ exclusions and to re-adjust their basis in OZ investments accordingly.



Wait, what about the famous stuff?

- The most well-known tax provisions of the OB3 are probably
 - no tax on tips
 - no tax on overtime
 - deduction for car loan interest
 - senior deduction
- All are below-the-line
- All are temporary
- The Legislature did not choose to extend conformity to any of them.



**remember, for more detail see
“OBBA Conformity—Final
Consolidated Report” at
[www.maine.gov/revenue/taxes/tax-
policy-office](http://www.maine.gov/revenue/taxes/tax-policy-office)**



Questions?

Thank you.



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