



# Maine's New Pass-Through Entity Tax

Jason R. Inman  
*Acting Deputy Director, Income/Estate Tax Division*  
*Maine Revenue Services*

[maine.gov/revenue](http://maine.gov/revenue)



# Session objectives and roadmap

- Overview of Maine Pass-Through Entity Tax (PTET) and 2026 federal SALT-cap changes
- Who may elect and which owners are included in the Maine PTET base
- How the entity tax, member credit, nonresident payment and return obligations fit together





# Why PTET exists

- Pass-through income generally flow-through to partners and shareholders
- The federal individual deduction for state and local taxes is limited
- Federal guidance allows qualifying state income taxes paid by a pass-through entity to reduce entity income





# The 2026 federal SALT-cap change

- 2026 limit: \$40,400, or \$20,200 for married filing separately
- Phase-down begins above \$505,000 of modified AGI, or \$252,500 for married filing separately
- The higher cap may reduce, but does not eliminate, the potential federal benefit of PTET





# What Maine enacted

- Applies to tax years beginning on or after January 1, 2026
- Annual elective tax for qualifying partnerships and S corporations
- Operates alongside Maine's withholding and composite-return programs





# What Maine enacted (Continued)

- Coordinates the entity tax, member addition, 90% refundable credit and 10% nonresident payment
- PTET uses the 7.15% rate; the 2% individual income-tax surcharge is not included



# Poll Question # 1





# The Maine PTET system at a glance

- Make an annual election on a timely filed PTET return
- Build the tax base from the distributive shares of qualified members
- Compute and pay the entity PTET and any separate nonresident-member payments
- Report member amounts for the Maine addition, credits and payments





# Key PTET definitions

- Pass-through entity: qualifying partnership or S corporation; excludes publicly traded partnerships and certain financial institutions
- Qualified member: direct individual, trust or estate owner, including ownership through a disregarded entity; excludes tax-exempt organizations
- Distributive share of income: resident or Maine-source nonresident income used in the base, with a zero floor





## Key PTET definitions (continued)

- PTE taxable income: total qualified-member income plus required PTET additions
- Distributive share of tax: entity PTET allocated using the member's share of income



# Annual election and filing window

- Election is made by filing a PTET return annually.
- A valid extension preserves the election window
- Election becomes irrevocable after the applicable extended due date
- Original return and tax are due on the 15th day of the third month after year-end
- Maine makes the election on the return, not through a separate online opt-in





# Eligible entities and qualified members

- Eligible entity: qualifying partnership or S corporation
- Qualified members: individual, trust and estate owners, including ownership through a disregarded entity
- Corporate owners and federally tax-exempt organizations are not qualified members
- Trust residence is determined at the trust level, not by beneficiary residence





# Building the PTET tax base

- Resident qualified member: net entity items entering federal adjusted gross income or taxable income
- Nonresident qualified member: net Maine-source entity items
- Guaranteed payments are included
- Determine each member's amount separately; treat a negative amount as zero before totaling the base
- Add back Maine PTET and substantially similar PTET paid to other jurisdictions





# Basic entity tax computation

- Illustration: \$1,000,000 of PTE taxable income after the required additions
- Entity PTET:  $\$1,000,000 \times 7.15\% = \$71,500$
- Other Maine income tax credits do not reduce the entity PTET





# Allocating tax and applying the 90% credit

- Assume Member A (resident), 60% of the allocation; Member B (nonresident), 40%
- Member A tax share: \$42,900; 90% refundable credit: \$38,610
- Member B tax share: \$28,600; 90% refundable credit: \$25,740





# Allocating tax and applying the 90% credit (Continued)

- Separate nonresident payment for B: 10% of \$28,600, or \$2,860
- Maine's member credit is refundable; some states use a nonrefundable carryforward credit



# Poll Question #2





# Member return treatment

- For residents and nonresidents, federal K-1 income reflects the qualifying entity-level PTET deduction
- The Maine addition restores the member's reported share of Maine and similar other-jurisdiction PTET
- A separate refundable Maine credit equals 90% of the member's reported Maine PTET share





## Member return treatment (continued)

- The credit requires entity payment and sufficient member identification on the entity return
- Resident: no separate 10% payment; Nonresident: the entity makes the separate payment explained next



# Non-resident member mechanics

- Use the member's Maine-source income to determine the reported PTET share: \$28,600 for Member B
- Member B receives a 90% refundable credit: \$25,740
- The entity separately pays the remaining 10% for Member B: \$2,860





# Conditional nonresident filing exception

- This is an exception from filing—not an exemption from Maine tax or an automatic composite return
- Apply it member by member and year by year; only full-year nonresident qualified members may qualify
- Individual: all Maine adjusted gross income, including a spouse's income on a joint federal return, must come from electing PTEs





# Conditional nonresident filing exception (Continued)

- Every electing PTE must file and pay; the 90% credits and 10% payments must cover the Maine liability
- Trust or estate: all Maine-source income must come from electing PTEs, be taxable and not be distributed as distributable net income



# Entity estimates and underpayment penalties

- Estimate requirement waived if current estimated PTET is under \$1,000 or prior-year PTET liability is under \$1,000
- Required annual amount: smaller of 100% of prior-year PTET or 90% of current-year PTET
- Installments due in months 4, 6, 9 and 13 after the tax year begins





# Entity estimates and underpayment penalties (Continued)

- Default is four equal installments unless adequate records support an adjusted pattern
- Underpayment penalty accrues automatically; the assessor may waive or abate for cause



# Filing, extensions and the Maine Tax Portal

- Return and tax due on the 15th day of the third month after the federal tax year ends
- PTET return, schedules and worksheets must be filed electronically
- A granted federal extension provides an equivalent Maine filing period plus 30 days





# Filing, extensions and the Maine Tax Portal (Continued)

- Maine Tax Portal provides online filing, payment and account access
- An extension to file does not extend the original payment deadline



# Amendments, reporting and overpayments

- A PTET return may not be amended without written consent or other authorization from the assessor
- Likely bases include a federal change or a material correction affecting Maine income, sourcing, members, allocations, tax or payments
- Amendment authority is not a second opportunity to make or revoke the annual election





# Amendments, reporting and overpayments (continued)

- Entity and member reports must reconcile each member's income, tax, credit and payment amounts
- Member reports are due within 30 days after the entity return due date; PTET overpayments do not earn interest



# Credit for similar PTET paid elsewhere

- A Maine resident individual may claim a distributive-share credit for substantially similar entity-level tax
- Begin with the member's distributive share of the substantially similar tax
- Example inputs: \$10,000 PTET share, \$9,000 refundable owner credit and \$7,000 tax before the credit
- Maine sourcing and the jurisdiction-by-jurisdiction limitation determine the final credit
- The member also makes the Maine addition for federally deducted similar PTET





# PTET versus withholding and composite filing

- PTET is distinct from Form 941 P-ME nonresident-member withholding
- PTET is distinct from Form 1040C-ME composite filing
- The programs use different taxpayers, calculations, forms and payment calendars
- Current withholding rates are 7.15% for most nonresident members and 8.93% for C-corporation members
- A PTET election does not automatically end existing withholding or composite-return obligations





# What the new tax means for taxpayers

- The federal effect may vary by owner under the 2026 SALT-cap rules
- The election depends on accurate member eligibility, residence, sourcing and ownership data
- The entity must account for PTET, nonresident payments and any separate withholding obligations





# What the new tax means for taxpayers (Continued)

- Electronic filing, member reporting and the limited amendment process require coordinated records
- Multistate PTET additions and credits are calculated jurisdiction by jurisdiction



# Polling Question #3





# Questions?

# Thank you.



*Cover background image by Maine Tourism Association / Sunset cliff image by @Stan Dzugan Photography*