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SERVING THE PUBLIC AND DELIVERING ESSENTIAL SERVICES TO STATE GOVERNMENT

JANET T. MILLS
GOVERNOR

KIRSTEN LC FIGUEROA
COMMISSIONER

September 30, 2025

To: Governor Janet T. Mills

From: Kirsten LC Figueroa, Commissioner
Department of Administrative and Financial Services

CC: Senator Matthea E.L. Daughtry
Representative Ryan D. Fecteau
Senator Teresa S. Pierce
Senator Harold "Trey" Stewart
Representative Matthew Moonen
Representative Billy Bob Faulkingham
Senator Nicole Grohoski
Representative Kristen Cloutier
Senator Peggy Rotundo
Representative Drew Gattine

RE: Report on 2025 Conformity with Federal Tax Law Changes

Dear Governor:

Due to the recent changes to federal tax law created by P.L. 119-21 (referred to herein as the "OBBBA") and their impact on Maine's practice of conforming to certain key federal tax law provisions, and pursuant to the procedure set out in recently-enacted Maine P.L. 2025 c. 336 (effective 9/24/25) (the "Maine Act"), I have determined that the Legislature will not have had the opportunity to conform or adjust Maine laws in response to the federal tax law changes that will affect the 2025 tax year before the bureau begins processing returns for the year.

Below, for your consideration, is a report describing the pertinent changes and their potential effects on Maine income tax laws and the budget, as well as my recommendations for how best to temporarily adjust the administration of the 2025 tax year to accommodate the goals of implementing the intent of the Legislature in enacted Maine income tax laws, reducing complexity for taxpayers as well as tax administration, while remaining mindful of budgetary constraints.

This report is divided into three sections: first, it discusses the relationship between Maine and federal tax law. It then turns to a discussion of the procedural alternatives available to assure the fair and efficient administration of Maine's tax laws in light of the timing of the changes to federal law. Finally, it concludes with a list of recommendations for potential adjustments that would partially conform to some of the retroactive provisions of the federal legislation, thereby minimizing inconvenience to Maine taxpayers and complications for the administration of Maine's tax laws.

Per your request, these recommendations are consistent with the procedures and duties set forth in the Maine Act. In particular, my recommendations for conformity all relate to areas where the budgetary implications of conformity are modest, with a special focus on provisions where failing to conform would introduce significant complexity to the tax system over multiple tax years. These recommendations are consistent with legislative decisions to conform or decouple from similar federal changes in the past.

1. Relationship Between Maine and Federal Tax Law

Maine, like most states that impose an income tax, closely follows provisions of the federal tax code. This means that certain core concepts, like "Adjusted Gross Income," have the same meanings under Maine and federal tax law, which makes administration of the tax laws substantially less confusing (for taxpayers and tax administrators) than it would be if Maine had its own, entirely separate, set of tax terms and regulations.

Conformity is traditionally achieved by the annual adoption of a bill conforming key definitions in Maine law with their federal counterparts. For various constitutional and historic reasons, Maine conforms as of a particular date—currently, December 31, 2024—meaning that the key definitions in Maine law conform to the federal tax laws as they existed on that date. For instance, for Maine purposes, a taxpayer's "adjusted gross income" is whatever it would be for federal purposes, had the calculation been performed according to the federal law in effect as of December 31, 2024.

Conforming in this way can create problems when there are substantive changes to federal tax law that are enacted on a schedule that is out of cycle with Maine's legislative calendar. The problem is particularly acute where federal law makes significant changes that are retroactive to the tax year currently under way. This has presented challenges to Maine's tax administration in the past; for instance, in 2017 Congress enacted and the President signed a major suite of tax law changes in December, just a few weeks before the opening of the tax filing season; the changes had major budgetary and administrative impacts for Maine, but there was no time for the Legislature to respond to them prior to the opening of the 2017 tax filing season in January 2018. In the most recent session, the Legislature enacted a new procedure to address this situation.

2. P.L. 2025 c. 336 and Retroactive Conformity.

The Legislature passed under the hammer and, this summer, you signed the Maine Act, which, as of its effective date of September 24, provides a procedural route by which adjustments can be made to the administration of Maine's tax law to account for mid-year changes in Federal tax law. Using the provisions of the Maine Act ensures a degree of conformity between federal and Maine law for tax year 2025.

The Maine Act enacted 36 MRSA Section 5295, which provides that:

> Whenever it appears to the Commissioner of Administrative and Financial Services that the Legislature has not had the opportunity before the bureau 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 commissioner shall report in writing to the Governor a description of the federal income tax law changes and their potential effect on Maine income tax laws and the state budget.

The OBBBA, enacted July 4, 2025, did make changes which affect tax year 2025, and I have determined that the Legislature will not have had the opportunity to address them prior to the beginning of the 2025 tax filing season (which is likely to begin in late January or early February 2026). The timing is particularly important because prior to making tax returns and forms available to the public, MRS must draft them, coordinate with software suppliers to code and test them, have hard copies printed, and so forth. As time passes, it becomes increasingly difficult to make changes to these forms without delaying the upcoming filing season. To conform with selected provisions of the OBBBA in time to launch the filing season in early 2026, the Assessor should be provided guidance by early October. Since this will be the first opportunity to use the provisions of the Maine Act,

I would like to take this opportunity to outline those considerations and to discuss the process mandated under the Maine Act.

Attached to this report, and incorporated by reference into it, is a memorandum describing the various provisions of the OBBBA that apply to the administration of the 2025 tax year, including their potential effect on Maine income tax laws and the state budget.

According to the Maine Act, upon DAFS delivery of this report, the Governor may (but is not required to) direct the State Tax Assessor to temporarily adjust in an equitable manner the administration of the laws applicable to the 2025 tax year. That instruction, to the extent practicable, must be made consistent with the intent of the Legislature in enacted Maine income tax laws, and must consider the budgetary implications of the determination, and the extent to which the determination reduces the complexity of administering the tax laws for 2025. Should the Governor so direct the Assessor, the Maine Act requires immediate notification to the officials copied on this report of the Governor's directions.

Upon receiving the Governor's directions, the Assessor is required to proceed in accordance with that direction. In addition, the Assessor is required to provide instructions to the public (either in the instructions to the relevant tax forms or in related public information). Those instructions must:

A. State that the return filing instructions and processing are contingent on the enactment by the Legislature of legislation that addresses the changes,
B. Explain that taxpayers may choose to wait for the enactment of legislation addressing those changes by filing an extension of time to file,
C. Require that taxpayers who opt to file returns before the Legislature acts do so in a manner consistent with the issued tax returns, forms, instructions and other guidance, and
D. State that if the Legislature eventually enacts legislation at variance with the filing instructions in effect at the time of filing, (1) the taxpayer will not be subject to interest or penalties for any underpayment related to the variance, (2) any incorrect refund based on that variance will not result in interest or penalties accruing prior to the date of enactment of such legislation, and (3) the affected taxpayer will be required to file an amended return to address the variance.

Maine Revenue Services is already working on tax forms for the 2025 tax filing season and will need to have them finalized in the next few weeks. As discussed above, it will be necessary to make any adjustments via this procedure, or to not conform to any part of the federal law and accept the inevitable complications created by such disjunction –

necessitating, for instance, new multiyear Maine tax form adjustments to align federal tax items reported under current law with amounts calculated under the federal law as it existed on December 31, 2024. It is therefore important to determine what adjustments might be desirable as soon as possible.

3. Recommendations for Action.

The chief purpose of this report is to inform you of the changes created by the OBBBA that will apply in the administration of income tax in 2025, and to recommend temporary adjustments to Maine tax laws for your consideration and possible direction to the Assessor. Finalizing any 2025 adjustments as well as presenting provisions of the OBBBA that apply to tax years 2026 and later will be addressed through legislation in the upcoming session, at which point additional provisions affecting tax year 2025 that go beyond the scope of the Maine Act may also be addressed.

Attached to this letter, and incorporated by reference into it, is a report on the retroactive provisions of the OBBBA, including a description of its retroactive provisions and their projected budgetary impacts. The report also contains recommendations regarding adjustments you may find equitable in light of the federal changes. A summary of those recommendations is included in the Table below.

I look forward to working with you to ensure the efficient and timely administration of Maine's income tax collection functions for tax year 2025.

Tax Year 2025 Conformity Items: Estimated Revenue Impact (Millions) and Recommendation for 2025 Tax Forms

Provision	2025 Direction Recommendation	Tax Year 2025 Revenue Change**	Fiscal Year * 2026	2027	2028	2029
Qualified Disaster Loss	Conform	Negligible Loss		Negligible Loss		
Qualified Farm Property	Conform	Negligible Loss	-$0.27	-$0.94	-$0.84	-$0.46
Sec. 179 Expensing	Conform	-$2.0	-$2.0	-$1.8	-$1.5	-$1.3
Business Interest Deduction	Conform	-$6.8	-$5.9	-$4.9	-$4.2	-$3.9
R&D Expenses Allow small business amended returns only	Conform	-$4.7	-$3.6	-$1.1	-$0.0	-$0.0
Miscellaneous***	Conform	Negligible		Negligible		
Total Cost		**-$13.5**	**-$11.77**	**-$8.74**	**-$6.54**	**-$5.66**
R&D Expenses	Do not adopt					
TY 2025+ expenses only		-$58.5	-$52.1	-$49.7	-$38.7	-$27.6
Full conformity		-$136.0	-$111.1	-$30.9	-$20.5	-$11.9
Accelerated depreciation for qualified production property	Do not adopt	-$6.2	-$7.7	-$22.9	-$25.8	-$24.2
Increase in standard deduction****	Do not adopt	-$30.8	-$42.2	-$33.8	-$32.1	-$31.8
Bonus Depreciation	Do not adopt	-$102.8	-$92.6	-$75.0	-$45.3	-$33.3
Senior Exemption	Do not adopt	-$31.3	-$42.2	-$32.4	-$30.6	-$18.3
Car Loan Interest	Do not adopt	-$9.0	-$9.4	-$11.6	-$14.8	-$10.1
No Tax on Tips	Do not adopt	-$9.2	-$13.1	-$9.8	-$10.1	-$6.2
No Tax on Overtime	Do not adopt	-$27.8	-$39.4	-$29.4	-$30.6	-$18.8

* The fiscal year estimated revenue change corresponds to the scenario where 2025 Maine tax forms assume conformity and the Legislature conforms to provision in the upcoming session. The initial timing of the revenue loss will be different if the 2025 forms do not assume conformity but the Legislature eventually conforms to the provision.

**The tax year 2025 revenue loss will primarily be spread over fiscal years 2026 and 2027.

***Certain postsecondary credentialing expenses treated as qualified higher education expenses for purposes of 529 accounts (distributions made after DOE); Spaceports are treated like airports under exempt facility bond rules (obligations issued after DOE); Treatment of certain qualified sound recording productions (commencing in tax years ending after DOE); Exclusion of interest on loans secured by rural or agricultural real property (tax years ending after DOE); ACRS/Energy Efficient property.

****Under current law, Maine decouples from the federal standard deduction starting in 2026. Therefore, updating the conformity date alone would only affect tax year 2025.