Policy Brief: Tax Policy Solutions for 2025 and Beyond

Lawmakers can help Mainers thrive by creating a fair and adequate tax code

By Maura Pillsbury | November, 2024

Executive Summary

Maine's existing tax code is not up to the task of meeting current and future needs. Tax policies that favor the wealthy and corporations enacted since 2011, combined with longstanding loopholes and carveouts, mean fewer resources are available to adequately fund public services and help Mainers thrive.

Lawmakers have a choice in crafting a state budget — they should reject a framework based on scarcity and instead prioritize building a budget sustained by a fair and adequate tax code.

In 2025, lawmakers have a choice in crafting a state budget. They should reject a framework based on scarcity and instead prioritize building a budget sustained by a fair and adequate tax code. This is particularly important as the state faces a budget shortfall and multiple crises related to housing, child care, direct care, and health care made worse by chronic underinvestment. While there has been progress in these areas in recent years thanks in part to funds made available to states through pandemic relief efforts, lawmakers can expand on these efforts by enacting long-term revenue solutions. Doing so will also ensure sufficient funding for education, health care, infrastructure, and other services that meet current needs, reduce hardship and inequality, and build a fairer, stronger economy.

This brief explores several policy options to reform Maine's tax code that lawmakers can enact to raise from a few million dollars to several hundred million per year:

- **Add new high income tax brackets** and rates so people with the most wealth pay more of a fair share
- **Create a "millionaire's tax"** or income tax surcharge to tax income over $1 million by an additional amount
- **Phase out lower income tax brackets as earnings increase** so income for high earners that falls into the lower tax brackets is taxed instead at the higher rate
- **Tax wealth differently from work. Tax unearned income** — including payouts from stocks or other investments and income generated from selling investment properties, valuable collections, and stocks — at a higher rate than income earned through work
- **Close business tax loopholes, and clamp down on tax avoidance** by ending offshore tax haven abuse and ineffective business tax subsidies

- **Reinstate the corporate alternative minimum tax** repealed in 2018
- **Strengthen estate tax**, owed on wealth passed on after death
- **Raise real estate transfer tax**, split by homebuyers and sellers when a home is sold, on higher priced homes

In selecting these policy options, MECEP prioritized two goals:

1. **Fairness, or *progressivity*.** Tax changes should ask more of households and businesses that have more to contribute.
2. **Adequacy.** Tax changes, as a whole, should raise the funding Maine needs to fulfill its commitments, such as the statutory funding requirements for schools and communities, and to meet basic needs.

It is important to note these two goals do not automatically go hand-in-hand: a state tax code can be fair by ensuring wealthier households pay more than those with low incomes without raising adequate funds to invest in shared priorities. Likewise, a tax code could conceivably raise all the funds necessary to meet the state's needs but do so in a way that unfairly asks the poorest households and small businesses to pay a larger share of their income than those with more resources.

Policymakers have recently made improvements in the fairness of Maine's tax code,[1] including expanding the Earned Income Tax Credit, Property Tax Fairness Credit, and the Dependent Exemption Tax Credit.[2] While these changes have helped reduce poverty and boost incomes for Mainers struggling to meet basic needs, lawmakers have also approved tax cuts that undercut our ability to invest in Maine's future, including the repeal of a voter-approved tax on high incomes to fund education.

Maine's strong economy and low unemployment rate post-pandemic has contributed to record state tax revenues, but these funds have not always been directed toward Mainers' most urgent needs, and a budget shortfall is predicted[3] in the next biennium.

New revenue will help Mainers regain ground

Schools, municipalities, and families have fallen behind while wealthy households and corporations have benefited from tax breaks.

Asking those at the top to pay more will allow Maine to fulfill unmet needs so families and communities can regain ground.

Over a 10-year period from 2011-2020, Maine underfunded its public schools by $2.54 billion before finally meeting its obligation to fund 55% of education costs in 2021.

Over the same period, the state pushed a $707 million shortfall onto property taxpayers by failing to fully fund local services, such as road maintenance and parks, before the required 5% municipal revenue sharing was restored in 2022.

Sources: MECEP analysis of data from Maine Department of Education and Maine Revenue Forecasting Committee, fiscal years 2011-2020.

Building a tax code that is fair and adequate is a necessary step to ensure opportunity and prosperity for all Mainers. The revenue-raising options contained in this brief can form the basis for a more equitable tax code, and economy, for the future.

Note: Unless otherwise noted, revenue estimates in this report are from the Institute on Taxation and Economic Policy as of August 2024. All types of filers are included in the revenue raising estimates in this brief. For the sake of clarity, only single filers and filers married filing jointly are included in the tables. For non-married filers with children (heads of households) the income brackets are 75% of the married filing jointly brackets.

Income tax

Maine personal income taxes are the largest state-level source of revenue. In fiscal year 2023, Maine personal income taxes totaled almost $2.5 billion and accounted for 43% of general fund revenues.[4] Personal income tax is assessed on all households. It is also assessed on the profit of many Maine businesses, most of which are pass-through entities. Pass-through business entities, such as sole proprietorships, partnerships, and S-Corporations, make up about 95% of all businesses nationally.[5] These businesses do not pay corporate income taxes and instead pay only personal income taxes on their business's profits.

As a result of income tax changes since 2011, state income tax revenue is hundreds of millions of dollars[7] less annually compared to what would have been raised under the 2010 tax code. Additionally, the repeal of the voter-approved tax increase on high incomes[8] means Maine is missing another $263 million annually.[9]

Maine's income tax is the state's primary progressive tax, meaning it is based on ability to pay. It achieves this by taxing higher amounts of income at higher rates. Maine's income tax code also contains several refundable tax credits, which reduce a household's income tax bill and can result in a refund. For example, a household with a $600 state tax liability that is eligible for $700 in state refundable income tax credits would receive a $100 refund from the state. Refundable tax credits help families with low income afford basic living expenses and help make up for other aspects of the tax code, such as sales tax and property tax, that ask more of households with low income than high income.

Because of its revenue-raising potential and inherent fairness, income tax should be the first place to look for opportunities to raise revenue. Increasing taxes on high incomes is the best way to address unmet needs, fund state investments like education, housing, and health care, and ensure every community and family can thrive.

There are many ways for lawmakers to increase income tax revenues. Maine has three tax brackets with tax rates of 5.8%, 6.75%, and 7.15%. Adding new brackets with higher tax rates for higher amounts of income is one option to raise revenue. Lawmakers could also add a surcharge (or millionaire's tax) on top of the existing tax brackets that applies to only high earners, or phase out lower bracket rates for high earners. Taxing different forms of income differently is another way to raise new revenues. For example, capital gains — a form of income primarily for the wealthy derived from selling investments such as stocks or property at profit

Highway fund transfers

The state's Highway Fund has a long-standing funding shortfall, due in large part to the LePage-era decision to no longer adjust the gas tax for inflation. Since decoupling the gas tax from inflation in 2011, Maine's gas tax has lost almost one third of its value and will collect over $100 million less in revenue in fiscal year 2025 as a result. The gas tax does impact Mainers with low incomes more than those with higher incomes because they spend more of their paychecks on gas. On the other hand, it is important to note that approximately one third of the gas tax in Maine is paid by tourists and commercial traffic and is one of the few ways lawmakers can ensure that Maine's 15 million annual visitors contribute to the upkeep of our highways.

In the past, voter approved bonds were used to make up the difference in declining gas tax revenues. Bonding is a good option to spread out costs over time when the roads will be in use by those paying taxes for them. Starting in 2023, the Legislature instead chose to divert over $100 million in general fund dollars annually to the highway fund to make up the difference, taking away funding from other urgent priorities. The state can reverse this practice and recapture over $100 million that could be diverted to other pressing needs by reverting to the practice of using bonds for the highway fund.[6]

— is currently taxed in Maine as regular income. This treats income the same whether earned from work or from wealth generating more wealth. Instead, Maine could tax capital gains differently, at a higher rate than income earned through salary or wages. Another option is to increase income tax revenues by limiting deductions or credits that help to lower tax liability. Because Maine has made significant progress in recent years to limit deductions for households with high incomes, this report does not include proposals to further limit personal income tax deductions or credits. Below MECEP examines adding **new high income tax brackets**, **income tax surcharges**, **income tax rate recapture**, and **capital gains and dividends taxes** as possible options to raise additional income tax revenue from high earners.

New high income tax brackets

Tax rates apply to taxable income, which is typically significantly less than a household's total, or gross, income. Adjusted gross income is gross income after most deductions and exemptions are applied. Taxable income is adjusted gross income minus the standard deduction (or itemized deductions, whichever is greater) and personal exemption. Most single filers claim a standard deduction and personal exemption on their state income tax that lowers their taxable income by $19,600 and married households filing jointly can claim $39,200 in standard deductions and personal exemptions.[10] Households can claim an additional personal exemption for each dependent. The standard deduction phases out for higher incomes and ensures lower income filers (those with adjusted gross income below $14,600) are not subject to income tax, while the personal exemption adjusts taxable income based on household size. For example, a single Mainer would have to earn more than $19,600 in 2024 to owe any income tax. And while Maine's top income tax rate of 7.15% is applied at taxable income above $61,600 for a single filer, that same Mainer would have to earn $81,200 in adjusted gross income before they owed income tax at the top rate. Then, the top rate would apply only to income above the threshold, with income below that level taxed at lower rates.[11] For example, a single filer earning $100,000 in adjusted gross income would have $80,400 in taxable income after the standard deduction and personal exemption. Their tax would be (5.8%*$26,050) + [6.75%*($61,600-$26,050)] + [7.15%*($80,400-$61,600)]. While their highest marginal tax rate is 7.15%, their average tax rate is actually 5.25%.

By creating new rates and brackets, Maine can raise significant revenue through income tax. The examples below illustrate how much revenue could be raised with the addition of one or two new top brackets.

Adjusted gross vs. taxable income — examples

Single filer	Married filing jointly
$50,000 adjusted gross income	$100,000 adjusted gross income
-$14,600 standard deduction	-$29,200 standard deduction
-$5,000 personal exemption	-$10,000 personal exemption
$30,400 taxable income	$60,800 taxable income

Maine can raise between $128 million and $256 million annually, with a new top tax rate of 9.15%, 10.15%, or 11.15%. These proposals would primarily affect only 1% of Maine households, representing the highest-income earners in the state making over $200,000 (for single filers), or $400,000 (for those married filing jointly). Adding two new top brackets of 8.15% and 9.15% or 9.15% and 10.15% would raise $174 million and $284 million respectively, and would primarily impact only 5% of Maine households, representing the highest-income earners in the state making over $100,000 (for single filers), or $200,000 (for those married filing jointly).

Options to raise revenue through income tax

Income tax: current law		
Tax rate	Taxable income, single filer	Taxable income, married filing jointly
5.8%	$0 - $26,050	$0 - $52,100
6.75%	$26,050 - $61,600	$52,100 - $123,250
7.15%	$61,600 and higher	$123,250 and higher

Source: Maine Revenue Services 2024 tax rates. Note: Bracket thresholds are adjusted annually for inflation.

Income tax: Option 1 — One new top bracket

New top bracket of 9.15%, 10.15%, or 11.15%
Raises $128–$256 million annually, primarily impacts top 1%

Tax rate	Taxable income, single filer	Taxable income, married filing jointly	Additional revenue
5.8%	$0 - $26,050	$0 - $52,100	$0 (existing brackets)
6.75%	$26,050 - $61,600	$52,100 - $123,250	
7.15%	$61,600 - $200,000	$123,250 - $400,000	
9.15% or 10.15% or 11.15%	$200,000 and higher	$400,000 and higher	$128 million $192 million $256 million

Income tax: Option 2 — Two new top brackets

Scenario 1 — New top brackets of 8.15% and 9.15%
Raises $174 million annually, primarily impacts top 5%

Tax rate	Taxable income, single filer	Taxable income, married filing jointly
5.8%	$0 - $26,050	$0 - $52,100
6.75%	$26,050 - $61,600	$52,100 - $123,250
7.15%	$61,600 - $100,000	$123,250 - $200,000
8.15%	$100,000 - $200,000	$200,000-$400,000
9.15%	$200,000 and higher	$400,000 and higher

Scenario 2 — New top brackets of 9.15% and 10.15%
Raises $284 million annually, primarily impacts top 5%

Tax rate	Taxable income, single filer	Taxable income, married filing jointly
5.8%	$0 - $26,050	$0 - $52,100
6.75%	$26,050 - $61,600	$52,100 - $123,250
7.15%	$61,600 - $100,000	$123,250 - $200,000
9.15%	$100,000 - $200,000	$200,000 - $400,000
10.15%	$200,000 and higher	$400,000 and higher

Income tax surcharge

Another option to raise additional income tax revenue from high earners is creating an income tax surcharge, also called a "millionaire's tax" like the law recently approved by voters in Massachusetts to tax income over $1 million by an additional 4%. This tax adds a flat surcharge rate on to any income over a set threshold. This policy is effective at focusing the tax change on only the highest income earners. Maine does not currently have an income tax surcharge, although they are becoming increasingly popular in other states as awareness of extreme income inequality has grown.

The first option impacts the top 1% of earners, while the second option impacts the top 5% of income earners.

Taxable income	Surcharge	Estimated revenue
Over $1 million	3% or 4%	$81 million $108 million
Over $200,000	3% or 4%	$263 million $381 million

Income tax rate recapture

Income tax rate recapture is another option for taxing the income of higher earners without creating new brackets or surcharges. Rate recapture phases out the lower income tax brackets as earnings increase. For higher earners, this means income that falls into the lower tax brackets is instead taxed at the higher rate. Rate recapture, as shown in the example below, could raise over $20 million of revenue annually.

Phase out threshold for lower brackets	Estimated revenue
$100,000 - $200,000+ single $200,000 - $400,000+ married filing jointly	$23 million

Under this option, the lower tax rates would start phasing out for those with taxable income above $100,000 for single filers, or $200,000 for those married filing jointly. The lower tax rates would be fully phased out for taxpayers with income over $200,000 for single filers, or $400,000 for those married filing jointly. These taxpayers would pay the highest tax rate on their entire income, rather than the variable tax rates under current law. Introducing rate recapture in this scenario would impact about 8% of Maine taxpayers.[12]

Capital gains and dividends taxes

Maine can change the way it taxes dividends and capital gains, which are sometimes referred to as "unearned income." Dividends are the annual or quarterly payouts from stocks or other investments. Capital gains are the income generated from selling assets such as investment properties, valuable collections, and stocks. Currently, capital gains and dividends are taxed as regular income. The options below would only affect up to 1% of filers in Maine.

Most families’ primary asset is their home. Families build wealth by building home equity, particularly as they pay down their mortgage and their homes increase in value over time. Capital gains tax would not impact most families, even if their homes had grown in value. Federal and state tax law exempts up to $250,000 of capital gains from the sale of a primary residence for single filers, and up to $500,000 for joint filers, such as married couples.

Increasing taxes on high incomes is the best way to meet unmet needs, fund state investments like education, housing, and health care, and ensure every community and family can thrive.

MECEP has assessed two options, both of which would add an additional surcharge to dividends and capital gains that exceed the taxable income threshold.

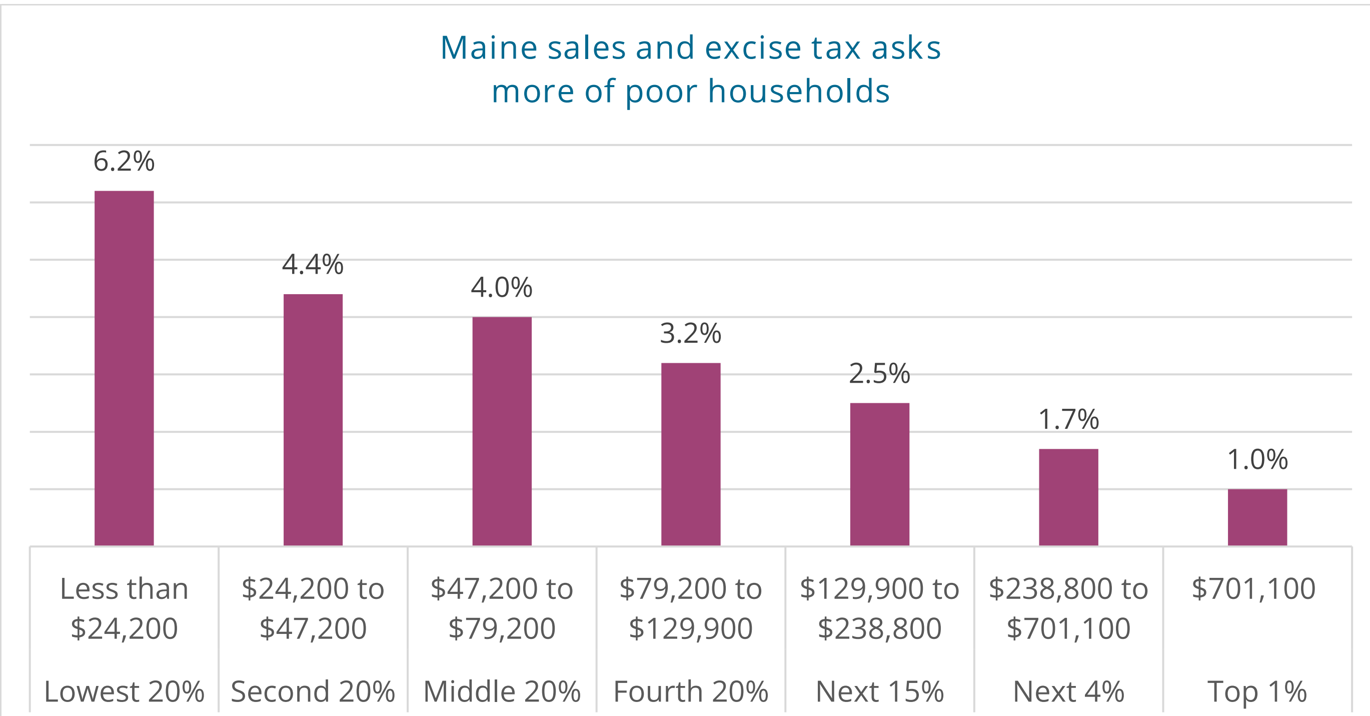
Capital gains and dividend tax options

Dividend and capital gains surcharge	Taxable dividend and capital gains income	Estimated revenue
2%	Over $250,000 single/$500,000 married	$60 million
4%	Over $250,000 single/$500,000 married	$119 million

Sales tax

Sales tax is the second largest source of revenue at the state level, accounting for 38% of general fund revenues in fiscal year 2023 totaling almost $2.2 billion.[13] Sales tax is based on a percentage of sale price. It is collected at the time of sale and varies depending on the type of good or service being purchased. Some sales in Maine, such as prescription medication, heating fuel, and most groceries, are exempt from sales tax, while general purchases of goods are taxed at 5.5%, prepared food and certain liquor is taxed at 8%, lodging at 9%, and cannabis at 10%.[14] Most services are not taxed.

Generally, sales tax is regressive. The poorest one-fifth of families pay a share of their income in Maine sales taxes that is more than six times larger than the top 1%.[15] Households with less wealth pay a larger share of their income in sales taxes than households with more wealth in part because wealthier households save a larger percent of their income while poorer households are more likely to spend all of their income.[16] Therefore, sales tax is not a progressive way to raise revenue — there are better options.



Note: Average sales and excise taxes paid as a percentage of income-by-income group. Using 2023 income levels. Source: ITEP Who Pays 7th Edition.

To meet the fairness benchmark of sound revenue policy, any effort to raise revenues through sales tax must be matched with a refundable income tax credit to offset the effects of the increase on the poorest households. Prior Legislatures have already supported this offset by creating and expanding Maine's Sales Tax Fairness Credit.

The revenue-raising options below include expanded Sales Tax Fairness Credits on par with the increase in sales tax. This is an essential step for ensuring a more equitable revenue stream if lawmakers pursue sales tax increases, however the credit is limited in its ability to reach some of the households with the lowest incomes that are not required to file taxes. While there is a 95 to 99 percent take up rate for the Sales Tax

Fairness Credit among eligible households that file income taxes, the rate dips into the 70s when including eligible non-filing households.[17]

Options to raise revenue through sales tax

Sales tax: Option 1 — Changes to hold harmless the bottom 40% of households			
Tax rate	**Additional revenue raised**	**Sales Tax Fairness Credit amount**	**Credit phaseout range (see note)**
5.5%	$0 (current law)	$125 - $225	$20,000 - $40,000
6.5%	$200 million	$350 - $450	$25,000 - $45,000
7.7%	$400 million	$625 - $725	$25,000 - $45,000
8.9%	$600 million	$900 - $1,000	$25,000 - $45,000

Sales tax: Option 2 — Changes to hold harmless the bottom 60% of households			
Tax rate	**Additional revenue raised**	**Sales Tax Fairness Credit amount**	**Credit phaseout income range**
5.5%	$0 (current law)	$125 - $225	$20,000 - $40,000
7.1%	$200 million	$575 - $675	$50,000 - $70,000
9.1%	$400 million	$1,225 - $1,325	$50,000 - $70,000

Note: The STFC begins to phase out at different income levels depending on family size. Under current law, the credit begins to phase out at $20,000 for a single filer, and $40,000 for married filing jointly (36 MRSA §5213-A). Estimated revenue raised is net of estimated revenue lost by increasing the Sales Tax Fairness Credit. Data source: Institute on Taxation and Economic Policy, 2020.

Lawmakers have proposed a seasonal sales tax increase in the past, as well as local option sales and lodging taxes. If such proposals are introduced again, lawmakers should make the same considerations for fairness as they would for a year-round increase. Local option sales and lodging taxes generally look to direct funds locally to municipalities with high tourism. This source of funding would only be available to a limited number of communities that already have a greater commercial property tax base than most and could further exacerbate inequality with communities that do not. So-called "tourist taxes" are therefore better implemented by changing lodging tax rates across the entire state or creating a statewide surcharge than allowing for variable local option sales taxes.

Policymakers have in the past looked to narrow tax bases such as cigarettes and liquor for new revenue. Increased taxes on these products could raise tens of millions of dollars of revenue annually but would be regressive. These revenue streams also are not sustainable as revenue decreases over time as increased prices discourage purchases of the taxed products. For that reason, these revenues are best suited to fund public health efforts that reduce tobacco and alcohol addiction and associated diseases, not long-term investments such as education, roads, and bridges.[18]

Corporate tax

Corporate tax is the third-largest source of general fund revenue, although it is much smaller than income or sales taxes. In fiscal year 2023, it raised $451 million and represented 8% of general fund revenues. The tax is assessed on the profits of businesses that are organized as C-corporations which represent a small share of businesses in Maine. Nationally, C-corporations make up only 5% of businesses.[19]

Raising corporate income taxes can be a valuable part of a plan to raise the revenue Maine needs.

Maine's corporate income tax revenue applies to all corporations with significant sales in the state, regardless of where those corporations are headquartered. Corporations based outside the state, such as online retailers, big box stores, and supermarket chains, make up a large portion of Maine's corporate tax base. These businesses pay Maine corporate income tax based on the amount of their sales in the state.

Maine cut its corporate tax in 2018, costing the state $5 million per year in revenue from corporate filers, an added benefit to the already large tax breaks these corporations received from federal tax cuts enacted in 2017 under the Tax Cuts and Jobs Act, which are set to expire in 2025. Prior to 2018, the top corporate tax rate applied to businesses with income over $250,000.[20] The benefits of these tax breaks accrue to the wealthiest households. An assessment of state corporate tax changes between 1980 and 2010 showed no relationship between corporate tax rates and median wage growth, but a comparison of income growth for the top 1% over the same time showed corporate tax cuts coincided with an increase in income gains for the wealthiest households.[21]

New high corporate income tax

Raising corporate income taxes can be a valuable part of a plan to raise the revenue Maine needs. Maine's top corporate tax rate applies only to profits above $3.5 million. The proposals included here increase the top corporate income tax rates to 10%, 11%, or 12%. The proposals would raise between $35 and $101 million annually. By raising the top rate, Maine can generate much-needed revenue without affecting the smallest Maine businesses and start-ups.

Options to raise revenue through corporate income tax

Corporate income tax: current law	
Tax rate	**Taxable profit**
3.50%	$0 - $350,000
7.93%	$350,000 - $1,050,000
8.33%	$1,050,000 - $3,500,000
8.93%	$3,500,000 and higher

Scenarios		
Changing the top rate to:	On taxable profit of:	Would raise additional revenue of:
10%	$3,500,000 and higher	$35 million
11%	$3,500,000 and higher	$68 million
12%	$3,500,000 and higher	$101 million

Alternative minimum tax

Beginning in tax year 2023, the Inflation Reduction Act made a significant change to how massive corporations—those with over $1 billion in profits—are taxed at the federal level. Under the corporate alternative minimum tax (CAMT), these big corporations are required to report income consistent with what is in their corporate financial statements. This is then compared to their reported federal taxable income. They are taxed either a 15% CAMT on the income on their financial statements (also known as "book income"), or 21% on their reported taxable income, whichever is greater.

The CAMT prevents the biggest corporations doing business in the US from shielding their profits from taxation using complex tax loopholes, deductions, and credits. It creates a more level playing field for small businesses by ensuring big profitable businesses pay taxes too. Big businesses should not be able to erase their entire tax liability leaving others to pick up the tab.

Maine can conform with the federal CAMT to do the same at the state level. Because the public does not know how many corporations making over $1 billion in profits have tax liability in Maine, we cannot estimate how much in taxes this bill could bring in. Conforming at a rate comparable to the federal rate would put Maine's CAMT at 6.38%. Maine previously conformed with federal law and had a CAMT of 5.4%, but this was repealed in 2018 with the enactment of the federal Tax Cuts and Jobs Act.[22, 23]

Alternative minimum tax – corporations with profits >$1 billion		
	Current corporate tax	Alternative minimum tax
Federal	21%	15% (adopted)
State	8.93%	6.38% (suggested)

Source: MECEP analysis

Example: Corporation A reports $0 in taxable income to the federal government, which gets carried over to its Maine tax return. For the same year, Corporation A reports $1 billion in worldwide profits to shareholders, including $1 million in Maine. Under the current corporate tax rate, Corporation A would pay $0 in Maine state taxes. Under the suggested alternative minimum tax, Corporation A would be responsible for paying 6.38% on the $1 million it earned in Maine, or $63,800.

Closing business tax loopholes

Clamping down on tax avoidance by ending offshore tax haven abuse

The state can raise revenue by limiting corporations' ability to use foreign tax havens to avoid paying Maine corporate income taxes. Multinational corporations use complex international accounting schemes to move profits to a low-tax country even though the profits derive from sales made in a higher-tax environment. **These corporations use tax havens to avoid paying roughly $52 million a year in Maine corporate income taxes**, [24] but corporate income tax revenues have increased substantially since this estimate was made.

Policymakers can close this loophole by reclaiming Maine-based profits booked to offshore tax havens with a policy called "worldwide combined reporting," which would require corporations to report profits earned anywhere in the world, allowing Maine to tax a portion of those profits based on sales generated in Maine — thus neutralizing tax haven schemes.[25] This would prevent corporations from hiding their profits in overseas tax havens to avoid tax liability.[26]

Business tax subsidies

Maine's tax code contains many specialized tax benefits for businesses that cost hundreds of millions of dollars annually. Some of these programs are structured to benefit only a single business in the state. Costly tax subsidies provide questionable, if any, value to Maine people, but are a primary mechanism through which the tax code can be tilted in favor of a select few businesses, further concentrating wealth and perpetuating inequality. These programs continue to be enacted and touted as economic development drivers, despite report[27] after report[28] detailing their ineffectiveness. Lawmakers should close these loopholes to recapture revenue.

Some examples of wasteful tax expenditures include:

- **The Dirigo Business Subsidy** lowers business income taxes by providing refundable tax credits of up to $2 million for investments in training and capital equipment beginning in 2025.[29] This costly tax giveaway will pull over **$45 million dollars per year** of revenue from other priorities,[30] with no guarantee it will have an impact worth the high cost. The subsidy draws money from Maine workers, communities, and small businesses — giving away their tax dollars — and funnels it toward big businesses that often already have the wealth and resources to make the investments this program hopes to attract.
- **The Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs** lower the property taxes businesses pay on their equipment by exempting equipment from property tax or reimbursing businesses for property taxes paid on their equipment. Together the programs cost over **$80 million per year**.[31] An independent, nonpartisan review of the program confirmed its financial benefit to businesses but found little evidence that the program met the Legislature's goal of incentivizing investment. The distribution of benefits in fiscal year 2018 shows most of the benefits going to larger businesses, with 75% of the BETR benefits received by 8% of beneficiaries. Reviewers of the program assume a similar distribution for the BETE program.[32]
- **The Employment Tax Increment Financing Program** allows employers to take a percentage of their employees' withholdings rather than paying the full amount to state taxes. In exchange, the business is supposed to provide high-quality jobs, but there is little accountability or transparency. Maine's

program costs roughly **$10 million a year**[33] and the bulk of the benefits go to a small number of recipients; 58% of the benefits paid between 2012 and 2018 went to fewer than 5% of participating businesses, with $49 million going to just 10 businesses.[34]

- **The Shipbuilding Facilities Credit** was created in 1997 and extended in 2018 to provide a tax credit for large capital investments for employers in the shipbuilding trade. Only one business, General Dynamics' Bath Iron Works, meets the 5,000-worker threshold necessary to receive the credit. BIW receives over **$3 million annually** through the credit.[35] The extended program will give away up to $45 million, on top of the prior $60 million in tax breaks since its creation. A recent non-partisan evaluation found, despite statutory requirements, little data on program outcomes, including job quality, had been collected.[36] It also does not appear to be creating jobs for Mainers: reported employment levels at Bath Iron Works are lower than its initial 1997 employment count.[37]

Estate tax

Estate tax is owed on wealth passed on after death. After subtracting charitable contributions, Maine's estate tax levies an 8 to 12 percent tax on wealth exceeding $6.8 million per person.[38] Maine's estate tax raised $30 million in FY23.[39] It affects only the very wealthiest Maine estates, representing less than 1% of total households,[40] making it one of the state's most progressive tax sources. Since 2012, Maine weakened its estate tax through several rounds of cuts that reduced revenue and fueled wealth disparities.[41] Those cuts were achieved by increasing the amount of wealth that can be passed on tax free. Before the cuts, estate tax was assessed on estates worth more than $1 million. Today, estates worth up to $6.8 million pay no estate tax at all. Proponents of cuts to Maine's estate tax have argued it protects the inheritance of family farms, but this is not borne out by the data. In 2022, Maine farms had an average value of $750,000 (including land, buildings, machinery, and equipment).[42] Maine can strengthen its estate tax and raise revenue by restoring a lower threshold. The options assessed here estimate the revenue-raising potential of such a change.

Options to raise revenue through estate tax

Estate tax: current law		
Rate	**Taxable estate value**	**Additional revenue raised**
0%	$0 - $6.8 million	$0 (current law)
8%	$6.8 million - $9.8 million	
10%	$9.8 million - $12.8 million	
12%	$12.8 million and higher	

Source: Maine Revenue Services 2024 tax rates. Note: Bracket thresholds are adjusted annually for inflation.

Estate tax: Option 1 — Lower bracket thresholds		
Rate	**Taxable estate value**	**Additional revenue raised**
0%	$0 - $2 million	$16 million
8%	$2 million - $5 million	
10%	$5 million - $8 million	
12%	$8 million and higher	

Estate tax: Option 2 — return to pre-LePage estate tax law		
Rate	**Taxable estate value**	**Additional revenue raised**
0%	$0 - $1 million	$32 million
8%	$1 million - $4 million	
10%	$4 million - $7 million	
12%	$7 million and higher	

Source: Institute on Taxation and Economic Policy, 2020.

Real estate transfer tax

Homebuyers and sellers split the cost of real estate transfer tax when a home is sold. The current tax is $2.20 per $500 of sale price, regardless of the overall cost of the home. The FY23 revenue for real estate transfer tax was over $22 million.[43] Raising real estate transfer tax on higher priced homes is a progressive revenue option because it would ask more of those buying and selling higher priced homes. The Legislature previously enacted a higher real estate transfer tax in 2021, but it was vetoed by the Governor.[44] This tax would have raised funding for affordable housing and other priorities by increasing real estate transfer tax on the sales of homes over $1 million to $2.70 per $500 of sale price. Revenue raised via real estate transfer tax could be targeted to address the affordable housing crisis. Due to limited data, MECEP explored three options, but other options include adding additional tiers and phasing out the lowest tier for higher priced homes.

Scenario — Increase real estate transfer tax on home sales over $1 million	
Increase	**Estimated revenue (annual)**
$2.70 (50 cent increase)	$4 million
$3.20 ($1 increase)	$8 million
$4.20 ($2 increase)	$16 million

Source: MECEP estimates based on fiscal note for LD 1454, Amendment C-A, 131st Legislature.

Conclusion

Policies to raise revenue are the only way to solve the persistent funding inadequacy baked into Maine's tax code. This brief offers a range of options designed to help Maine meet current and future funding needs.

Families and communities need crucial services such as schools, health care, and infrastructure to ensure health, safety, and an upward economic trajectory for everyone. By raising needed revenue from those who can afford to pay more, Maine can ensure every family and community has the resources they need to thrive.

About MECEP

Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to economic justice and shared prosperity by improving the well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous research and analysis. MECEP is an independent, nonpartisan organization.

About the author

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Acknowledgements

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