Deductions for Interest and Dividends on Maine State and Local Securities

Enacted	Statute(s)	Taxpayers Affected	Est. Revenue Loss
2000	36 MRS §5122(2)(N)	3,100	FY26 $340,000; FY27 $285,000
2000	36 MRS §5200-A(2)(K)	Uncertain	FY26 & 27 $20,000-$100,000

Source for Estimated Revenue Loss and Taxpayers Affected: Maine State Tax Expenditure Report 2026 – 2027.

Program Description

The federal government exempts from taxation interest income or dividends earned on most state and local bonds. Maine also exempts that income from taxation through conformity. The deductions under 36 MRS §5122(2)(N) and §5200-A(2)(K) appear to exist to exempt from state taxation those state and local bonds that *are not* exempted at the federal level. Individual and corporate taxpayers claim these deductions through the tax filing process.

Proposed Reclassification

These exemptions were originally classified for evaluation purposes as a Non-Business Incentive and scheduled for a Full Evaluation. We have now gathered additional information and concluded that these exemptions are a small piece of the complex network of state and federal laws that together exempt interest from most state and local bonds from state income taxation. Evaluating the effects of this small piece of the network, in isolation, would be inconsistent with how the other tax exemptions for state and local bonds are treated in the review process. Isolating the effect of these exemptions would also be challenging and hence may be more resource-intensive than warranted based on their estimated fiscal impacts and the small number of affected taxpayers.

For these reasons, OPEGA proposes these exemptions be moved to the No Review evaluation category.