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Mills Administration Proposes Compromise PPP Tax Solution Providing Full State Tax Relief to Maine Small Businesses Most In Need

February 9, 2021

The Mills Administration today offered a solution to the Paycheck Protection Program (PPP) tax conformity issue that would extend full state tax relief to more than 99 percent of Maine businesses that received PPP. The proposal would match the Federal government's double benefit on the first \$1 million of PPP received, an approach that would result in full tax relief for Maine's small businesses who need it most and partial relief to those Maine businesses that received more than \$1 million in PPP.

The proposal seeks to strike a middle ground between those who oppose conforming to the Federal government's double benefit and those who support full conformity, while ensuring that tax relief is delivered to Maine's most vulnerable businesses.

"Maine small businesses used PPP to keep their doors open, to keep people on payroll, and to keep our economy afloat during a time of extraordinary financial distress," said Governor Janet Mills. "We recognize the incredible hardship these businesses have endured and, as we have throughout this pandemic, we want to ease their burdens and allow them to stay open and keep people employed. With this proposal, we are matching the measure enacted by the Congress in late December to deliver full tax relief to 99 percent of Maine businesses that received PPP in order to do the most good for the most businesses and the most employees."

"The Paycheck Protection Program was a lifeline to many Maine businesses. This program allowed them to keep their businesses operating and offer security to their employees," said Heather Johnson, Commissioner of the Department of Economic and Community Development (DECD). "This approach is another step in the administration's commitment to supporting Maine's businesses as we work through the pandemic."

Under the proposal, businesses that received \$1 million or less in PPP funds would receive from the State the same double benefit that the Federal government recently enacted. For the purpose of State taxes, like Federal taxes, PPP funds would not be treated as taxable income and any allowable associated expenses would also be deductible.

"We commend Governor Mills and her administration for their work to find a solution to this problem," said David Clough, Maine State Director for the National Federation of Independent Business (NFIB). "Her revised Paycheck Protection Program tax conformity proposal would be a tremendous relief to the thousands of small businesses that utilized this vital federal lifeline to keep their doors open, employees working and customers able to get their needs met locally."

According to an analysis by DECD, there are 26,683 Maine businesses that received \$1 million or less, which is 99.1 percent of all the Maine businesses that received PPP. These businesses employ 184,472 people, which is 81 percent of the total employees at businesses that received PPP. These businesses are predominantly small businesses and members of the hospitality industry that was hardest hit by the pandemic.

For the 251 businesses (or 0.9 percent) that received more than \$1 million in PPP, the State would match the double benefit on the first \$1 million received and maintain standard tax treatment for proceeds in excess of that amount. These proceeds would be treated as taxable income eligible for offsetting deductions.

This action comes after the Federal government in late December 2020 retroactively converted certain PPP loans into forgivable grants and allowed them to be exempt from federal taxation while also allowing associated expenses to be claimed as deductions. In allowing this so-called double benefit, the Federal government, which does not have to balance its budget like Maine, unfortunately did not offer compensation for the loss of tax revenue for states who wish to conform to the federal tax code.

*“With the tax filing season beginning in earnest soon, this proposal makes a meaningful difference for Maine’s business community,” said **Kirsten Figueroa, Commissioner of the Department of Administrative and Financial Services**. “Moving forward, we hope that as the Federal government makes changes to the tax code, it will keep in mind the resulting impacts on states like Maine and provide the appropriate level of support.”*

The proposal put forward by the Mills Administration today is estimated to cost the State approximately \$82 million in tax revenue. The Administration proposes covering this loss by utilizing surplus funding it had previously proposed adding to the Budget Stabilization Fund, drawing upon carryover funds it had proposed rolling forward from Fiscal Year 2021 into Fiscal Years 2022-2023, and utilizing unencumbered funds to maintain a balanced 2022-2023 biennial budget proposal. This would preserve critical investments in public health infrastructure and protect education, property tax relief, revenue sharing, and other measures that will help Maine communities combat and recover from the pandemic.

The Mills Administration has discussed the proposal with lawmakers, including those on the Appropriations and Taxation Committees, as well as the Maine State Chamber of Commerce, and the National Federation of Independent Businesses (NFIB).

Today’s proposal builds on the Mills Administration’s support for Maine small businesses, which has included providing more than \$250 million in economic recovery grants to sustain business operations and depositing nearly \$300 million into the Unemployment Trust Fund to avert large unemployment tax increases for businesses.

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