

Maine Retirement Taxes: Income, Property & Estate

Admin User · January 19, 2026

With its stunning landscapes and numerous tax benefits, Maine has become a top destination for retirees seeking a high quality of life.

By Trish Brigham

Maine, with its stunning landscapes and vibrant culture, has become a top destination for retirees seeking a high quality of life. Maine has seen a healthy influx of people relocating to the state to enjoy its abundant natural beauty, recreational activities and lively cultural scene. New retirees and others also flock to Maine due to its low crime rate which is significantly below the national average. The state's economic growth exceeds the national average, and although it is a high-tax state, there are some tax benefits available to senior citizens.

State Income Tax

The state of Maine has higher state taxes than other states and fewer benefits for seniors. The state's graduated income tax rate ranges from 5.8% to 7.15%, with the income threshold for the top rate kicking in at \$126,900. Interest, dividends and capital gains are taxed as ordinary income, although some pension exclusions are available for IRA and 401(k) distributions. Maine taxpayers have a personal exemption amount of \$5,000, with the standard deduction base amount of \$14,600 for single filers and \$29,200 for married filing jointly; filers have the option of itemizing deductions if doing so would be more favorable than the standard deduction. There is no additional senior deduction.

Social Security and Estate Tax

Social Security benefits are not taxed in Maine, representing a major benefit for retirees in the state. Medicare premiums may be tax deductible for taxpayers who itemize their deductions on their state returns if their medical expenses exceed 7.5% of adjusted gross income.

Maine taxpayers are also subject to estate taxes, ranging from 8% to 12%, with a \$7 million per person exclusion. There is, however, no portability between spouses after the first spouse passes away.

Pensions and Retirement Distributions

Most public and private pensions, as well as other retirement plan distributions such as 401(k)s and IRAs, are subject to state income tax. Military pensions are not subject to tax. For the tax year 2024, there is an allowable deduction for pension income up to \$45,864, which is included in federal adjusted gross income. However, the \$45,864 must be reduced by all taxable, nontaxable and railroad benefits. For example, if you receive a Social Security benefit of \$24,000, that amount counts towards the available pension deduction even though the \$24,000 is not taxable.

Property Tax

Real estate is subject to property tax. The amount is assessed and collected by local municipalities and may vary widely depending on location. There are several property tax exemptions available, which makes property tax more favorable compared with other high-tax states. The homestead exemption, available for residents who occupy their homes and have owned it for at least 12 months, provides a \$25,000 exemption.

Some municipalities do offer a Municipal Property Tax Benefit to seniors who are at least 60 years old, allowing those seniors to earn benefits of up to \$1,415 by volunteering within their local community. In addition, the Property Tax Stabilization Program allows some senior taxpayers to freeze property taxes on their homestead to guard against large increases year-over-year.

Sales Tax

Maine imposes a 5.5% sales tax on most items; there is no additional local sales tax. The tax rate is 8% on prepared foods and alcoholic drinks sold in venues licensed for on-premise consumption of liquor.

One new peculiarity of Maine sales tax law is a new rule that treats lessors of real estate as retailers. Previously, lessors had to pay sales tax upfront when purchasing property intended for use as a rental. Now, responsibility has shifted and the lessor can purchase the property tax-free, with sales tax now collected on lease or rental payments, shifting the burden to the renter. This rental tax is 9%; a sales tax of 10% is imposed on short-term

rentals of automobiles and light-duty trucks. Groceries, prescription drugs, and medical devices are exempt from sales tax.

Overall, relocation decisions must take into account many objective and qualitative factors. Maine, while considered a high-tax state, offers an exceptional quality of life for retirees, a major factor that can be an important consideration. To find a CPA/tax advisor in Maine who can assist with the financial aspects of the decision, click [here](#).

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