



Testimony in Opposition to LD 229:

“An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax Brackets and Tax Rates”

Senator Grohoski, Representative Cloutier, and the distinguished members of the Committee on Taxation, my name is Harris Van Pate and I serve as policy analyst for Maine Policy Institute. Maine Policy is a free market think tank, a nonpartisan, non-profit organization that advocates for individual liberty and economic freedom in Maine. Maine Policy Institute submits this testimony in strong opposition to LD 229, which proposes to adjust Maine’s tax brackets and tax rates in a manner that would impose additional burdens on Maine’s hardworking families and businesses.

This proposal is nearly identical to LD 1231, a bill that was rightfully vetoed by Governor Janet Mills in 2024 due to its harmful economic implications.¹ Bringing back this ill-conceived policy is a waste of legislative resources and a disservice to the people of Maine, who would ultimately bear the cost of higher taxes.

LD 229 is a Step Backward for Maine’s Economy

LD 229 represents a misguided attempt at tax fairness that, in reality, undermines economic competitiveness, discourages investment, and jeopardizes Maine’s fragile economy. Maine already has some of the highest tax burdens in New England and the nation, and increasing income taxes further will only accelerate the exodus of businesses, job creators, and high-income earners from our state.²

Instead of spurring economic growth, this bill would make Maine less attractive to entrepreneurs, professionals, and skilled workers, pushing them to lower-tax states such as New Hampshire and Florida.³ A survey of former Massachusetts residents who moved to Florida or New Hampshire found that over two-thirds cited the cost of living, about half cited dissatisfaction with state policies, and about 35% specifically said state tax policies influenced their decision to move.

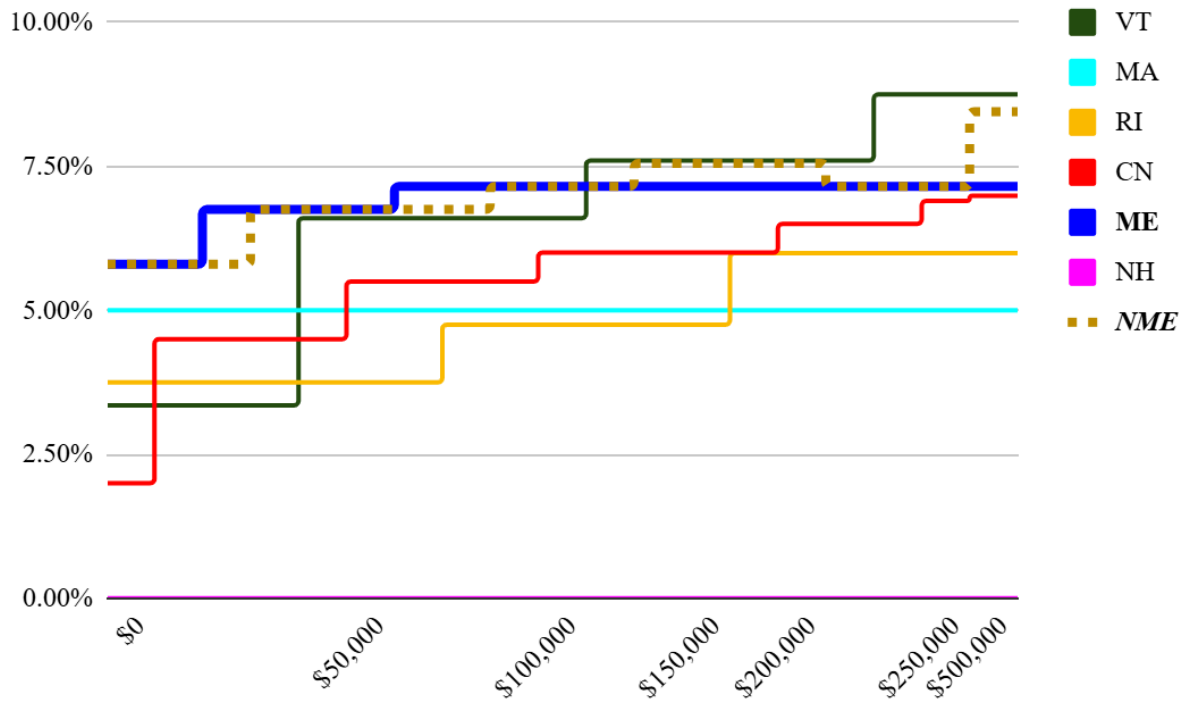
¹ <https://www.maine.gov/governor/mills/sites/maine.gov/governor.mills/files/inline-files/LD1231veto.pdf>

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<https://www.mdf.org/measures-of-growth/state-local-tax-burden/#:~:text=In%202021%2C%20Maine's%20tax%20burden%20held%20steady%20at%2011.7%25,.,in%20tax%20collections%20per%20capita.>

³ <https://www.cbsnews.com/boston/news/moving-from-massachusetts-florida-new-hampshire-survey/>

New England Marginal Income Taxes Under LD 229



(a chart comparing the current marginal tax rates in the six New England states, with the proposed tax rates established under LD 229 labeled as “NME”)⁴

Moreover, history has shown that increasing income tax rates do not necessarily lead to greater revenue generation.⁵ Higher tax rates suppress economic activity, discourage work, and reduce Maine’s ability to compete with other states for jobs and investment. As the above graph shows, for income below \$1 million, Maine already has the second-highest marginal tax rate in New England. Furthermore, we already have the 11th highest top-income tax rate in the country, outranking states like Connecticut and Rhode Island.⁶

Tax Hikes Will Disproportionately Harm Small Businesses and Families

Maine’s economy is built on small businesses, many of which file taxes as pass-through entities. By raising income taxes on individuals in higher brackets, LD 229 targets small

⁴ <https://taxfoundation.org/data/all/state/state-income-tax-rates-2024/>

⁵ <https://www.investopedia.com/terms/l/laffercurve.asp>

⁶ https://www.richstatespoorstates.org/variables/personal_income_tax_rate/



business owners, forcing them to make difficult decisions such as cutting jobs, reducing wages, or delaying expansion plans. At a time when Maine is still grappling with inflationary pressures and economic uncertainty, this bill would deal a significant blow to local businesses.

Furthermore, despite claims that LD 229 promotes fairness, tax increases often lead to unintended consequences. Higher-income earners are more mobile and can relocate their earnings or businesses elsewhere, leaving middle-class Mainers to shoulder a larger portion of the tax burden when projected revenues fail to materialize.

Governor Mills' Veto of LD 1231 Was Justified and Should Be Respected

Governor Mills correctly vetoed LD 1231 last year, recognizing that tax increases of this nature would be detrimental to Maine's economic health. In her veto message, she highlighted that such a policy would make Maine less competitive and undermine recent financial progress. According to the Governor's calculations in her veto message, low-income Mainers would receive minimal relief from this policy. She estimated the average tax cut for those who would benefit from the bill would be just \$22.

Given that the governor remains in office and her reasoning still stands, it is impractical and irresponsible for the Legislature to revisit this proposal, knowing it will likely meet the same fate. Governor Mills vetoed this bill last session and would almost certainly veto it again because her entire rationale for that veto remains true today.

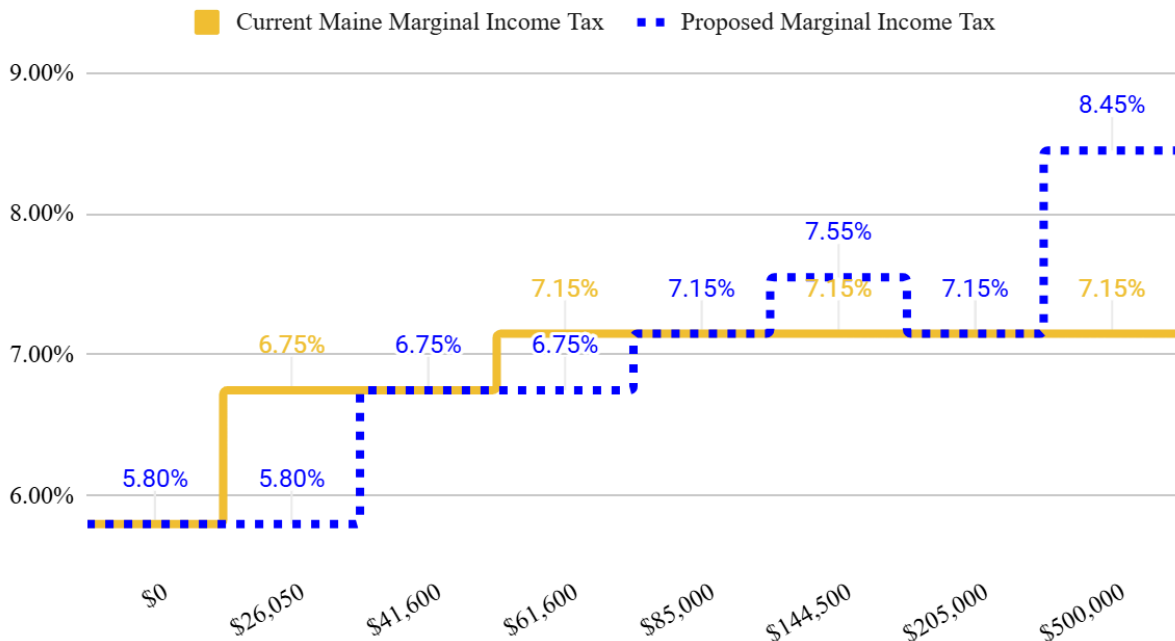
Instead of attempting to push through a tax hike that has already been deemed unwise by the chief executive, lawmakers should focus on policies that foster economic growth and fiscal responsibility. Lowering the tax burden, reducing regulatory barriers, and encouraging job creation are proven strategies for ensuring long-term prosperity for all Mainers.

The Bill's Simultaneously Progressive and Regressive Tax Structure is Unnecessary, Confusing, and Absurd

LD 229 attempts to restructure Maine's tax rate system solely with the goal of creating a small lower bracket shift, due in part to members of the last Legislature wanting to provide tax cuts for lower-income Mainers. This creates multiple problems, such as making Maine less competitive for high-income earners, as well as providing, as the governor noted, minimal benefit to working-class Mainers. However, another noteworthy issue is the outright absurdity of the proposed tax bracket structure.



LD 229's Proposed Marginal Income Tax



(a chart comparing the current marginal tax rate and the topsy-turvy proposal)

As one can see in the above graphs, not only would this increase Maine's already high tax rates when compared to its neighbors, but it would also create an illogical and erratic tax system. Maine's current three-tax bracket system is a simple progressive tax system where, as one's income increases, so too does the marginal income tax one pays.

This bill's intention is to increase the progressiveness of the tax system by increasing the starting point for lower-level tax brackets while creating higher tax brackets at the top of the structure to offset the loss of tax revenue at the bottom. However, this bill ensures that revenue loss is offset not just by increasing the top tax rate, but also by making a peculiar increased tax island around \$144,000 in earned income.

Not only does this bill increase the top marginal tax rate to 8.45%, but on income above \$144,500, it increases marginal tax rates from 7.15% to 7.55%. One might think this is meant to be a middle tax rate between 7.15% and 8.45%, but it isn't. For some bizarre reason, after one earns \$205,000, the marginal tax rate drops back down to 7.15% from 7.55% and stays there for the next \$305,000 of income. Thus, someone earning \$145,000 is paying more per extra dollar of income than someone earning \$400,000.



This makes LD 229 both progressive at certain levels of income earned (meaning it taxes higher income earners at higher rates) and then regressive at other levels of income earned (meaning it taxes some higher income earners less than those with lower incomes).

Conclusion

Maine Policy Institute urges the committee to reject LD 229. This bill represents a recycled and fundamentally flawed approach to taxation that would stifle economic growth, harm small businesses, and drive away talent and investment. Instead of raising taxes, Maine should pursue policies that promote economic freedom, encourage entrepreneurship, and create a business-friendly environment that benefits all residents.

Thank you for your time and consideration. We respectfully urge you to vote “**Ought Not to Pass**” on LD 229.