

**TESTIMONY OF
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DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation
Hearing Date: *February 11, 2025, Tuesday, at 1:00 PM*

LD 283 – “*An Act to Expand Local Revenues by Including Meals and Lodging Sales Tax Revenue Under the State-Municipal Revenue Sharing Program*”

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good afternoon, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 283, “*An Act to Expand Local Revenues by Including Meals and Lodging Sales Tax Revenue Under the State-Municipal Revenue Sharing Program.*”

This bill creates new revenue-sharing for municipalities by establishing the Local Government Hospitality Fund, funded by 1% of the sales tax receipts from sales of prepared food and rentals of living quarters. Revenues would be distributed in proportion to the amount of sales tax collected by each municipality. This type of proportional local transfer could require substantial MRS system updates, meaning an effective date of January 1, 2026, may be too soon for implementation.

As written, the transfer is based on sales tax receipts from sales of prepared food and rentals of living quarters but not of liquor sold in a licensed establishment. Both prepared food and liquor sales are taxable at the 8% sales tax rate and currently reported on the same line of the sales tax return. If the bill is intended to transfer sales tax receipts from sales of prepared food and liquor, its

reference to 36 M.R.S. § 1811(1)(D) should be amended to read: “subparagraphs (1) ~~and~~ through (3)” (on line 23).

Additionally, marketplace facilitators that sell prepared food (for example, food delivery services) or transient rental platforms and room remarketers that rent out living quarters currently report taxable sales in aggregate on a state-wide basis. This bill would require those retailers to report their sales by municipality; to facilitate such reporting, MRS would need to update its systems and forms.

Turning to technical language concerns, the phrase “collected by each municipality” (on lines 15-16) is problematic; sales tax is collected by retailers, and basing transfers on where sales tax is “collected” could exclude sales tax collected by out-of-state retailers. Further, the precise amount of revenue to be transferred should be stated more clearly within the cascade of revenue transfers under Title 30-A Section 5681. As written, the bill would arguably appear to direct transfer 1% of the previous month’s specified sales tax receipts, but those same receipts are also included in the 5% transfers to the Local Government and Tourism Marketing Promotion Funds. To facilitate the transfer directed by this bill in coordination with the other two funds, the bill should include language specifying the timing and calculation of the transfers in relation to the Local Government and Tourism Marketing Promotion Funds.

Finally, it should be noted that, with respect to smaller communities with only one or a few affected businesses, the reporting and redistributing revenues as specified in the bill may indirectly allow greater public knowledge of tax data of those businesses that otherwise would be confidential.

Finally, the administrative cost of the proposed program as written in the bill is disproportional to the intended benefit; and this may be a matter if unintended

phrasing. The Committee may want to inquire whether the sponsors intend a transfer of 1 percentage point and not a transfer of 1 percent.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.