Testimony in Opposition to LDs 632, 746, and 225:
"An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing"; "An Act to Authorize a Local Option Sales Tax on Short-term Lodging to Fund Municipalities and Affordable Housing" & "An Act to Reduce Property Taxes and Finance Public School Construction and Education Through a 3 Percent Sales Tax on Hotel and Lodging Place Rentals."

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. Thank you for the opportunity to testify on behalf of the Maine Policy Institute in opposition to LD 632, "An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing"; LD 746, "An Act to Authorize a Local Option Sales Tax on Short-term Lodging to Fund Municipalities and Affordable Housing"; and LD 225 "An Act to Reduce Property Taxes and Finance Public School Construction and Education Through a 3 Percent Sales Tax on Hotel and Lodging Place Rentals."

While addressing Maine's affordable housing crisis and education funding are laudable goals, these bills take the wrong approach by imposing a damaging and inequitable tax on the tourism sector—an industry critical to Maine's economy. Instead of solving the root causes of Maine's housing affordability challenges, this bill threatens small businesses, increases the cost of lodging for visitors and creates an unstable, inefficient revenue stream.

A Harmful Tax on Maine's Tourism Industry

LD 632 proposes a local option sales tax of 2% on short-term lodging, compounding the already high tax burden placed on Maine's tourism and hospitality sector. LD 746 also proposes a local option tax on lodging to fund municipalities and affordable housing. Maine currently imposes a 9% state lodging tax.[1] If this local tax option is enacted, certain areas could see effective lodging taxes rise to 11% or more—significantly higher than rates in neighboring states.[2]

[1] https://www.thecentersquare.com/maine/article_8d14ccd4-21fa-11ea-9add-7fc3bbf230c2.html
[2] https://www.revenue.nh.gov/taxes-glance/meals-rooms-rentals-tax#:~:text=The%20M%26R%20Tax%20is%20paid,periods%20beginning%20October%201%2C%202021.

Maine relies heavily on tourism, which supports over 131,000 jobs and contributes nearly $9 billion annually to the state's economy.[3] Raising the tax burden on short-term lodging would have several negative consequences:

- **Reduced competitiveness**: Higher lodging taxes make Maine less attractive than alternative destinations, especially New Hampshire, which has no state sales tax and an already lower lodging tax than Maine.[4]
- **Harm to small businesses**: Many of Maine's lodging providers are small, family-run businesses that would struggle to absorb additional tax-related costs.
- **Disincentivizing visitors**: Increased lodging taxes may discourage overnight stays, reduce tourism revenue, and negatively impact local businesses such as restaurants, shops, and recreational services.

Local Option Taxes Create an Uneven Playing Field

Allowing municipalities to impose local lodging taxes would create an unpredictable and inconsistent tax landscape across the state. Some towns may adopt the additional tax while others do not, leading to market distortions and uneven economic impacts on lodging businesses depending on their location.

Additionally, short-term rental properties often run by homeowners supplementing their income will be disproportionately impacted. Many of these homeowners are already facing increased costs due to state regulations and property taxes, and this added tax burden could drive them out of the market entirely, reducing available lodging options for visitors.

Unstable and Inefficient Revenue Source

LD 632 aims to use this tax revenue for municipal affordable housing programs. Still, local option sales taxes are an unstable and unreliable funding mechanism for public programs like affordable housing. Tourism fluctuates yearly due to economic conditions, weather, and travel trends, making it an unreliable and unsustainable funding source for municipal programs.

Moreover, tying affordable housing programs to tourism revenue is inherently flawed. The high cost of housing in Maine is driven by supply constraints, restrictive zoning laws, and high regulatory burdens—not a lack of local tax revenue.[5] Instead of

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[3] https://motpartners.com/wp-content/uploads/2024/05/MOT_GovCon_HighlightSheet_2023_Printed-Paper_FNL-0430.pdf

[4] https://www.revenue.nh.gov/resource-center/frequently-asked-questions/meals-rooms-rentals-tax

[5] https://mainepolicy.org/research/under-construction/executive-summary/

implementing new taxes, policymakers should focus on eliminating burdensome regulations that limit housing development, reforming zoning laws to allow more diverse housing options, and reducing the cost burdens associated with building housing.

Applies to LD 225: Increased Lodging Taxes for Education Funding

The concerns raised about local option sales taxes also apply to LD 225, which proposes an additional 3% statewide sales tax on lodging to fund school construction and K-12 education. All these bills rely on an unreliable and volatile tourism tax base to fund essential public programs. Rather than solving long-term funding issues for education or housing, these policies create an unpredictable revenue stream that varies based on economic conditions. Further, increasing lodging taxes under LD 225 would drive up the cost of tourism, harm small businesses and deter visitors, much like LD 632. Maine policymakers should seek stable, broad-based revenue solutions and increase the cost-effectiveness of Maine's educational system rather than further burdening the hotel and tourism industries.

Conclusion

These bills would increase costs on tourists, harm small businesses, and fail to provide a sustainable solution for Maine's housing challenges. Addressing housing affordability requires regulatory and zoning reform, not additional taxation. Instead of punishing the tourism industry, Maine should focus on policies that increase housing supply, reduce costs for builders and homeowners, and incentivize private-sector investment in affordable housing. For these reasons, I strongly urge this committee to oppose LDs 632, LD 746, and 225.

Thank you for your time and consideration.