

**TESTIMONY OF  
MICHAEL J. ALLEN, ASSOCIATE COMMISSIONER FOR TAX POLICY  
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES**

Before the Joint Standing Committee on Taxation  
Hearing Date: *March 12, 2025, Wednesday at 2:00 PM*

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”*

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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 Neither For Nor Against 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.”*

This bill would create a new “Hotel and Lodging Place” tax under Title 36, Part 7. In addition to the 9% sales tax imposed on the rental of living quarters in the Sales and Use Tax Law, the “Hotel and Lodging Place Tax” would impose an additional 3% rate on the rental of living quarters in a hotel or a “lodging place,” which is defined in Title 22. The revenue received from this 3% tax is to be credited directly to the Department of Education, to be used to fund school construction and kindergarten to grade 12 education.

With respect to broad concerns about the bill’s structure and intent, it should be noted that while the bill’s proposed new chapter is titled “Hotel and Lodging Place Tax,” the headnote to the new section and the bill summary both refer to that tax as a sales tax. However, the bill does not incorporate the reporting, filing, payment, and administrative provisions of Title 36, Part 3, sales tax that are needed

to administer the proposed tax as a sales tax. If the tax is intended to be separate from but reported and administered in the same manner as the Sales and Use Tax, the bill should be amended to reflect that intent (see, e.g., the Recycling Assistance Fee in 36 M.R.S. § 4833). Further, if the bill is so amended, the Committee should also amend the bill to address intended applicable sales tax exemptions. There may be other legal and administrative issues in having a Part 7 special tax that uses the Part 3 sales tax structure and appears in key aspects as a sales tax, but that is not merged into Part 3; research is ongoing.

Turning to more technical but still significant concerns, this bill incorporates the definition of “lodging place” enacted under Title 22, chapter 562, which relates to licenses issued by the Department of Health and Human Services (DHHS) to eating establishments, campgrounds, and other recreational businesses. The overlap of definitions under the cited Title 22 provisions and already existing defined terms relating to “rental of living quarters in any hotel, rooming house or tourist or trailer camp” as forth in the Sales and Use Tax Law in Title 36 is one of potential over inclusion or under inclusion of sales intended to be taxed by the bill. The overlapping intersection of the various terms need to be addressed; the policy reasons behind the distinctions, and the lines subsequently being drawn by the bill, are unclear.

Imposing the proposed 3% tax on a separate tax base, diverging from the current sales tax on rentals of living quarters, would result in unnecessary complexity and possible confusion. Transient rental platforms and room remarketers may not know whether the rentals of living quarters they sell or facilitate would be subject to the additional 3% tax. Additionally, the bill should be clarified to specify that the tax is imposed on the rental transaction amount by adding the following: “Value is measured by the sale price.”

If the bill is amended so that the additional 3% tax not only applies to the same tax base as the current 9% sales tax on the rental of living quarters but also becomes subject to both revenue sharing and the 5% Tourism Marketing Promotion Fund transfer, then each percentage point increase would raise approximately \$18.5 million per year.

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.