

Testimony Neither for Nor Against LD 632 An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing and LD 746 An Act to Authorize a Local Option Sales Tax on Short-term Lodging to Fund Municipalities and Affordable Housing

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Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. We are testifying neither for nor against LD 632 and LD 746.

First let me say we appreciate the proposals that Rep. Skold and Rep. Friedmann have put forth to address the housing crisis in our state, which has been exacerbated by the proliferation of short-term rentals. MECEP strongly believes in order to meet the commitments the Legislature has made to the people of Maine we need increased revenue.

Both of these bills would grant municipalities the authority to impose local option sales taxes on short-term lodging. The main difference between them is the percentage of the revenue that goes to MaineHousing and the restriction on how municipalities may use the collected revenue. Both proposals would allow a 2% tax on rental of living quarters in any hotel, rooming house or tourist or trailer camp, with an exception for those not currently subject to sales tax.

LD 632 requires the revenue retained by the municipality to be spent on affordable housing or general assistance. 15% of the revenue collected under this proposal is transferred to MaineHousing to provide subsidies for affordable rental housing or the construction of affordable housing units in rural areas.

LD 746 requires 10% of the revenue to be transferred to MaineHousing for the same purpose as LD 632, but there is no restriction on how municipalities may spend the remainder of the funding.

Both proposals require the tax to be passed by voters in a local municipal referendum. Under both proposals, municipalities are required to cover the state tax assessor's administrative costs or contribute an additional 2% of revenues collected under this tax, whichever is less. Both bills include a provision holding communities harmless against any reduction in state aid as a result of revenues collected under this tax.

In general MECEP opposes proposals that seek to allow broad local option sales taxes because they would allow resources to be concentrated in certain areas of the state, which could further exacerbate inequality. For example, some small coastal towns with high property values and retail centers would disproportionately benefit although they already have greater resources than many other Maine towns. For this reason, we instead would advocate for an increase in the statewide lodging tax to raise additional revenue to meet the needs of Mainers.

However, this proposal is narrowly focused on short-term lodging, which would largely fall on tourists. Roughly 2/3rds of taxes paid under this bill are likely to be exported to those traveling from out of state. But it is important to consider that approximately 1/3 will still fall on Mainers. Because sales tax is regressive, meaning those with lower incomes pay a greater proportion of their income in this type of tax, this remaining amount is likely to fall more on those who cannot afford it. If the Committee moves forward with this proposal, it would be important to consider exceptions to this tax for those who are

without permanent housing and living in short-term rentals, using emergency rental assistance, or living in mobile home parks, so this tax doesn't fall on those it is trying to help support.

Thank you for your time. I would be happy to answer any questions.
maura@mecep.org