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February 27, 2025 (*March update*)

To: Sen. Nicole Grohoski and Rep. Kristen Cloutier, co-chairs
Members, Committee on Taxation

From: David R. Clough, Maine State Director

Re: LD 229 – An Act to Bring Fairness in Income Taxes to Maine Families by Adjusting the Tax
Brackets and Tax Rates

This statement in **opposition** to LD 229 is made on behalf of the thousands of small business owners in Maine who are members of the National Federation of Independent Business (NFIB). LD 229 would expand tax brackets from three to six and increase the top marginal tax rate from 7.15% to 8.20% under the Maine individual income tax law.

LD 229 would establish one of the highest top marginal rates in the nation. According to Tax Foundation data only eight states have a top rate that exceeds 8.20%:

- California (9.3 - 13.3)
- Hawaii (11.0)
- New York (10.9)
- New Jersey (10.75)
- Oregon (9.9)
- Minnesota (9.85)
- Massachusetts (9.0)
- Vermont (8.75)
- **Maine (8.20) proposed**

The top rate in some of these states kicks in at a higher income level than what is contained in LD 229. ([2025 State Income Tax Rates and Brackets | Tax Foundation](#)). And in Massachusetts the rate is only 5.0% for taxable income below \$1,000,000.

LD 229 contains a significant but hidden tax shift from lower brackets to the top bracket. Also, curiously, the second highest tax rate proposed is for the fourth bracket – 7.52% – compared to 7.15% for the third and fifth brackets.

LD 229 would elevate Maine to one of the most expensive states nationally in which to be an upper income taxpayer, a factor that could make it more difficult to attract knowledge-based jobs, more challenging to attract investors for new ventures and growing small businesses, and more expensive to operate a successful and competitive small business.

Please also be aware that:

- Most small businesses are organized as pass-through entities whereby business income reported and taxed on individual tax returns.
- Income from operating a business is used to maintain business competitiveness, invest in equipment, and support employee wages and benefits.
- LD 229 would have a particularly sharp effect on small business owners who have worked hard over year to build equity in the business as a retirement fund “nest egg” when the business is sold.
- LD 229 would impose one of the highest tax rates in the nation on the “sweat equity” of the small business owner.

If an unstated goal of LD 229 is to make the Maine economy stronger and increase revenues from income taxes, the best win-win way to accomplish this is through helping businesses be more successful and making it more attractive to invest in businesses.

We urge you to choose “ought not” on LD 229. Not this way. Not this policy.

Thank you for being mindful of Maine small business owners and their challenges in helping make our state prosper while also staying in compliance with a growing volume and complexity of state laws – as well as the new payroll costs (starting in 2025) and workplace staffing adjustments (starting in 2026) prompted by the Paid Family & Medical Leave law.

Public Hearing Questions from Rep. Sayre

Q. Does NFIB know how many members would fall into the various tax brackets?

A. NFIB does not ask or maintain that information.

Q. In-migration in Maine and New Hampshire?

A. The U.S. Census Bureau has population migration data. The State Economist Office may know how best to present that information.

Q. Business formation in Maine and New Hampshire?

A. Below is a table, based on U.S. Census Bureau data, that shows annual total business formation from 2004-2024 in Maine and New Hampshire.

Business Formation Statistics											
Total for All NAICS: Maine, New Hampshire — Seasonally Adjusted Business Applications [Units]											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ME	4,500	9,202	9,292	8,709	7,762	7,084	7,519	7,362	7,392	7,305	7,361
NH	5,113	10,744	10,573	10,337	9,605	8,879	8,375	8,703	8,829	8,467	8,361
ME diff	-613	-1,542	-1,281	-1,628	-1,843	-1,795	-856	-1,341	-1,437	-1,162	-1,000
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2004-24
ME	7,814	8,067	8,845	10,928	9,994	10,607	13,574	13,016	14,136	14,163	196,894
NH	8,701	9,169	11,338	12,901	11,097	11,409	13,853	14,037	16,247	15,940	225,141
ME diff	-887	-1,102	-2,493	-1,973	-1,103	-802	-279	-1,021	-2,111	-1,777	-28,247
Source:	U.S. Census Bureau www.census.gov/econ/bfs/index.html www.census.gov/econ/currentdata/?programCode=BFS&startYear=2004&endYear=2025&categories[]=TOTAL&dataType=BA_BA&geoLevel=US&adjusted=1&notAdjusted=1&errorData=0										