Testimony in Opposition of LD 1047:
"An Act to Impose an Additional Tax on Certain Unearned Income"

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 in opposition to LD 1047, An Act to Impose an Additional Tax on Certain Unearned Income.

This proposal would impose a 4% surtax on capital gains above $250,000 for single filers, $375,000 for heads of household, and $500,000 for joint filers. While this bill may be well-intentioned in its aim to generate additional revenue, it ultimately punishes investment, deters economic growth, and reinforces the perception that Maine is hostile to capital formation and innovation.

Capital Gains Are Already Taxed—And Heavily So

LD 1047 would add an additional 4% tax to Maine's existing income tax, which already treats capital gains as ordinary income. Maine's top marginal income tax rate is 7.15%, among the highest in the nation. When combined with the federal capital gains tax and the federal Net Investment Income Tax, some Mainers could face combined marginal rates approaching or exceeding 33%. Such punitive taxation discourages the investment that drives innovation, entrepreneurship, and job creation.

Maine Cannot Afford to Drive Out Capital

Maine already faces steep economic headwinds: an aging population, a shrinking workforce, and a chronic need for private investment in housing, infrastructure, and business development. Taxing capital more aggressively than our competitor states will only exacerbate these challenges. Investors and entrepreneurs are highly mobile. When faced with high capital gains taxes, they may defer asset sales, relocate to lower-tax states like New Hampshire or Florida, or avoid investing in Maine altogether.

Research by the National Bureau of Economic Research finds that capital gains realizations are especially sensitive to tax rates—a phenomenon known as the "lock-in effect," which paradoxically reduces tax revenue over time.[1] Maine should not follow the

[1] https://www.nber.org/papers/w0257

path of states like California or New York, which are now witnessing outmigration of wealth and investment, and thus tax revenue, due in part to punitive tax policies.[2] [3]

Punishing Success is No Way to Build a Stronger Maine

We must recognize that capital gains are not the exclusive domain of the ultra-wealthy. Farmers, small business owners, and retirees often realize significant one-time capital gains upon selling land, a family business, or long-held investments. LD 1047 would penalize these Mainers for a lifetime of prudent saving, risk-taking, and economic contributions. This proposal undermines the very values of self-reliance, hard work, and entrepreneurship that Maine should champion.

There Is a Better Way Forward

Rather than imposing new taxes on capital and investment, Maine should focus on building a competitive tax climate that attracts talent, capital, and enterprise. This includes reforming our tax code to broaden the base, lower rates, and simplify compliance. Maine Policy Institute has long advocated for phasing out the state income tax—a reform that would yield long-term economic dividends, attract new residents, and reward the productivity of those already here.

For these reasons, we strongly urge the committee to reject LD 1047. Maine's future depends on its ability to compete—not to punish the very activities that generate prosperity. Thank you for your time and consideration.

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[2] https://taxfoundation.org/data/all/state/taxes-affect-state-migration-trends-2024/
[3] https://lao.ca.gov/LAOEconTax/Article/Detail/809