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

From: David R. Clough, Maine State Director

Re: LD 1047 – An Act to Impose an Additional Tax on Certain Unearned Income
LD 1089 – An Act to Permanently Fund 55 Percent of the State's Share of Education by
Establishing a Tax on Incomes of More than \$1,000,000

This statement in **opposition** to LD 1047 and LD 1089 is made on behalf of the thousands of small business owners in Maine who are members of the National Federation of Independent Business (NFIB). Member businesses collectively span a wide range of economic activities; provide jobs and paychecks to about 30,000 families; and help form the economic backbone of hundreds of communities and the State.

LD 1047 imposes a surtax of 4% on capital gains above \$250,000 (individual), \$375,000 (head of household), and \$500,000 (joint filers), bringing the top tax rate to 11.15% on capital gains.

LD 1089 imposes a surtax of 4% on taxable income that exceeds \$1,000,000 (regardless of filing status), bringing the top tax rate to 11.15%. The bill purports to increase funding for PreK-12 education but does not dedicate additional revenues to that purpose.

Both bills would shine a beacon on Maine for having one of the highest marginal top tax rates in the nation for capital gains (LD 1047) or overall taxable income (LD 1089).

Both bills would hit small business owners who have built sweat equity in their business and used that as a retirement nest egg.

Both bills would make it harder for entrepreneurs to attract investment for startups or expansion. If anything, Maine should be looking for ways to encourage investment, not discourage it. Industry sectors that rely on highly educated knowledge workers, rely on venture capital, and otherwise compete nationally for talent and funding will find the high tax rates a stumbling block, because workers and investors may prefer a more tax-friendly environment in other New England states or somewhere else in the nation.

Maine voters not long ago expressed strong disapproval of two ballot proposals regarding tax increases.

- A ballot proposal in 2018, to enact a payroll tax and non-wage income tax to fund a program called the Universal Home Care Program, was rejected by a vote of only 37.14% “Yes” and a strong vote of 62.86% “No”.
- And a 2016 ballot proposal to state increase funding for PreK-12 education through a 3 percent tax on household income over \$200,000 was narrowly approved 50.6% to 49.4% but subsequently repealed months later by the 128th Legislature. A majority of voters in 9 counties voted “No” on the measure. Likewise, a majority of voters in 369 municipalities voted “No” compared to the “Yes” vote in 158 municipalities.

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.

NFIB members believe a better way to raise revenues without adverse effects is through focusing on job creation and business success. They believe in a focus on a productive and sustainable economy that enables businesses to attract investment and sell their products or services at affordable prices locally and attractive value nationally or internationally.

We respectfully urge Ought Not to Pass on both LD 1047 and LD 1089.

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.