

Testimony in Opposition to LD 1505, An Act to Phase out the Sales and Use Tax

April 23, 2025

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 in opposition to LD 1505.

This bill proposes phasing out the current sales and use tax by .5 percentage points every two years, or a total period of 22 years to 40 years depending on sales tax rates, which currently ranges from 5.5% on most taxable goods and some services to 10% on car rentals and cannabis.

The sales and use tax provides an important source of revenue for the state. This bill would eliminate the source of approximately 38% of state tax revenue and create an annual loss of over \$2 billion for the state's general fund. As a result, the Legislature would have to cut crucial programs and services that Mainers rely on every day or raise other taxes, including income and property taxes. This would also significantly impact municipal revenue sharing, which provides 5% of state sales tax receipts to municipalities. As a result, municipalities would also have to cut local services or raise property taxes to make up for this lost revenue.

MECEP does support greater state reliance on progressive revenue sources that ask more of those who have a greater ability to pay rather than regressive revenue sources like the sales tax. However, we do not believe fully phasing out the sales tax on all goods and services is the right approach, and we urge the committee to reject this bill.

If the committee would like to pursue a more fair, targeted decrease to the sales tax, we would recommend increasing the size of the sales tax fairness credit as a more targeted way of decreasing the sales tax for Mainers who need it most. Currently the lowest income families—those in the bottom one-fifth of earnings--pay a share of their income in Maine sales taxes that is more than six times larger than the top 1%. Households with less wealth pay a larger share of their income in sales taxes than households with more wealth in part because wealthier households save a larger percent of their income while poorer households are more likely to spend all of their income. Expanding the sales tax fairness credit would be a better approach than eliminating the sales tax entirely, which would also cut taxes for the wealthiest Mainers.

Thank you for your time. I would be happy to answer any questions.

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