

Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation  
January 25, 2024

In Support of LD 1891, ***“An Act to Support Maine Businesses Through a Child Care Tax Credit and a Pass-through Entity Tax”***

Senator Grohoski, Representative Perry, and distinguished members of the Joint Standing Committee on Taxation: My name is Nate Cloutier, and I am here today on behalf of HospitalityMaine, representing more than 1,300 restaurant and lodging establishments of all sizes across the state. HospitalityMaine supports LD 1891, ***“An Act to Support Maine Businesses Through a Child Care Tax Credit and a Pass-through Entity Tax”***.

HospitalityMaine has made childcare policy a top priority in the 131<sup>st</sup> legislative session. Several of my members and I were in this committee nine months ago in support of a bill from Senator Stewart, LD 1222, which has a similar approach to supporting the childcare crisis. One thing is for sure, accessibility and affordability are still two major hurdles for parents.

There are two components in LD 1891. The first establishes a pass-through entity tax on the income of partners/shareholders of S corps and allows certain entities to pay Maine income tax at the entity level. This allows a taxpayer established as a pass-through entity to deduct state income taxes paid on the taxpayer's federal income tax liability. We understand this provision provides the funding mechanism for the second provision of the bill. The second component creates a childcare tax credit for employers contributing to childcare costs of an employee equal to the lower of \$10,000 or \$1,000 per child.

We've been pleased that as childcare legislation has been considered before this legislature, it has received overwhelming bipartisan support. Last session, we supported Senator Jackson's bill, LD 1726, that invested an unprecedented \$60M to the childcare industry, which included necessary wage supplements for childcare workers among other investments.

This issue will not be solved by a single approach; it will take a multifaceted effort that tackles the problem from different angles. There's a refrain that tax credits for businesses would not be an appropriate way to support the childcare industry and working families. We respectfully disagree. Businesses want to be able to do their part in alleviating childcare struggles for their employees. Any parent paying for childcare expenses right now will tell you that the costs are astronomical and is one of, if not the largest household expense. Many of our members operate on 2-3% profit margins that are reinvested into the business. Legislation like LD 1891 would create a worthwhile and achievable incentive for businesses and the state to partner in contributing to childcare costs while spreading the cost burden. We also see this and similar legislation as a mechanism that will draw workers back into the workforce and help keep those already working employed.

The biggest hurdles our industry face are a continued workforce shortage and high costs of doing business. Employers I speak with continue to tell me that their employees struggle with finding available

and affordable childcare, which makes long-term stable employment even more difficult. There is a breaking point for many families where the costs associated with childcare outweigh the benefits of employment.

Most estimates show that childcare costs more than \$10,000 per child annually. This specific policy could be improved by increasing the tax credit reimbursement amount and by making the credit refundable so that non-profits may participate. \$1000 is about 5 weeks' worth of childcare costs for a family with one child. The credit amount needs to be meaningful enough for the business to participate and for the family to benefit. Whichever the final vehicle may be, we recommend an amount closer to the credit offered in LD 1222 (50% of the amount expended or \$3000/child, whichever is lower).

The business community has never been so invested in being a part of the solution to childcare issues. We urge you to capitalize on this momentum and provide another avenue of relief to parents. This policy is a win-win-win. Parents receive much needed help associated with childcare costs; businesses are able to contribute, and in return receive an improved workforce; and the state is able to broadcast an additional, attractive mechanism to improve childcare in Maine.

Thank you for your consideration. We believe between LD 1891 and LD 1222 there is a path forward that will work for everyone. I would be happy to answer any questions you may have.