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Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation
March 12, 2025

In Opposition to LD 632, “An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing”; and

In Opposition to LD 746, “An Act to Authorize a Local Option Sales Tax on Short-term Lodging to Fund Municipalities and Affordable Housing”

Senator Grohoski, Representative Cloutier, and distinguished members of the Joint Standing Committee on Taxation, my name is Nate Cloutier, and I am here today on behalf of HospitalityMaine (HM), representing Maine’s restaurant and lodging industries. I am also testifying on behalf of the Maine Tourism Association (MTA). MTA has been promoting Maine and supporting members in every type of tourism business, such as lodging, restaurants, camps, campgrounds, retail, guides, tour operators, amusements, and historical and cultural attractions for over 100 years. HospitalityMaine and the Maine Tourism Association oppose LDs 632, “An Act to Allow a Local Option Sales Tax on Short-term Lodging to Fund Affordable Housing” and 746 “An Act to Authorize a Local Option Sales Tax on Short-term Lodging to Fund Municipalities and Affordable Housing.”

LD 632 would allow a municipality to impose a local option sales tax of 2% on short-term lodging if approved by referendum of the voters in a municipality. The revenue must be used in municipal programs for affordable housing in the municipality, including rental assistance or to support costs related to general assistance. LD 746 would also allow a municipality to impose a local option sales tax of 2% on short-term rentals if approved by voters in a municipality. Ten percent of the revenue must be transferred to the Maine State Housing Authority to be used to provide subsidies through the rural affordable rental housing program or through another program that supports the development of affordable housing in rural communities.

Maine's hospitality industry is a critical driver of the state's economy, particularly the lodging sector:

- 670+ hotel properties statewide
- Over 39,000 jobs supported
- More than \$2.1 billion in wages and salaries paid
- Guest spending in the Maine economy is \$3.3 billion

HM and MTA oppose local option sales taxes and increases to the lodging tax for several reasons. In the summer of 2024, Maine experienced a 9% decline in visitation, raising some concerns about the upcoming and future seasons. Municipalities enacting these taxes would have to prepare to offer a higher lodging tax rate to their future guests who may already be incentivized to look elsewhere. Given ongoing uncertainties, such as international tariffs and fluctuations in Canadian travel, Maine's tourism businesses cannot afford another competitive disadvantage.

It is also important to recognize that lodging tax increases do not only affect tourists—we estimate one-third of lodging stays in Maine are booked by Maine residents. Higher lodging costs would make travel within our own state more expensive for local families, compounding an already high tax burden. Furthermore, allowing municipalities to impose their own lodging taxes would create uneven competition between communities. If, for example, Bar Harbor adopts a local option sales tax but neighboring towns such as Southwest Harbor and Ellsworth do not, it would create uneven competition between communities with inconsistent tax structures, putting some businesses at a competitive disadvantage.

Maine has already taken steps that limit lodging growth in key tourism hubs. The City of Portland and the Town of Bar Harbor have both instituted moratoriums on hotel development, while Bar Harbor has further restricted cruise ship passenger arrivals. Coupled with an effective lodging tax rate that could reach 11%, these measures create a hostile environment for Maine's lodging businesses at a time when many are still working to recover from recent economic challenges. The result is a troubling trend: Maine's hotel occupancy rates are already lagging behind the rest of New England, and that disparity continues to grow. Rather than adding additional burdens on tourism-dependent businesses, we should be focused on policies that strengthen Maine's appeal as a destination and support economic growth.

Allowing for local option sales taxes would further cement Maine's reputation as a high-taxed state; LDs 632 and 746 impose additional costs in a key industry that is already struggling with competitiveness, labor shortages, and rising operational expenses. At a time when Maine should be positioning itself as a premier travel destination, these tax increases would make the state less attractive, less affordable, and less competitive.

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