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Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation
March 26, 2025

In Support of LD 908, “*An Act to Eliminate the Sales Tax on Prepared Foods and Support the State’s Hospitality Industry*”

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, representing Maine’s first-rate 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 support LD 908, “*An Act to Eliminate the Sales Tax on Prepared Foods and Support the State’s Hospitality Industry.*”

LD 908 proposes to eliminate the 8% sales tax on all prepared foods, including meals served in restaurants, for the purpose of boosting economic activity by making dining out more affordable. Additionally, it would require the Department of Economic and Community Development to initiate an advertising campaign to encourage tourism in Maine and promote dining establishments as tax-free, except for alcoholic beverages. Finally, the bill is also a concept draft and proposes to offset the loss of revenue from the repeal of the meals tax by making changes to certain items included in the sales tax, performing an assessment of sales tax exemptions on nonessential goods, and conducting a comprehensive audit of state government programs and expenditures.

Hospitality and tourism are aptly referred to as the backbone of Maine’s economy. Our state boasts award-winning, world-leading eateries, and the restaurant sector alone provided for 70,200 restaurant and food service jobs in 2024, making it the third-largest private employer in Maine. Despite these contributions, Maine’s hospitality industry stands at a challenging

crossroads. Many businesses must earn a year's worth of revenue in four summer months while struggling to remain viable during the off-season. Recent data showing a 9% decline in visitors during the summer of 2024 and a series of high-profile restaurant closures underscores these challenges.

Maine's restaurant industry currently operates on razor-thin margins of 3-5%. Rising labor and food costs—up 30-40% over the last five years—along with new tax mandates like the Paid Family & Medical Leave program, impose substantial financial strain. Credit card processing fees, rent, utility, and insurance costs have also increased considerably, further squeezing small, often family-run establishments. When costs rise, restaurants must either cut back on operations or raise menu prices, which have increased 3.7% since February 2024. This precarious situation leaves many long-time operators anxious about the future, with some considering ceasing operations rather than risking further financial hardship. Although national economic uncertainty is a factor, state-level policies significantly influence decisions about altering operations or closing businesses.

We recognize the state is currently facing a revenue shortfall and that any tax proposal must address budgetary needs. However, we'd also caution that raising meals or lodging taxes to close gaps would be a costly mistake. Such broad-based increases would place an estimated 70% of the burden on Maine residents themselves, while also discouraging visitors, ultimately weakening the very industries that drive our economy. We appreciate that the Governor's budget proposal did not include hikes to these taxes, signaling an understanding that higher hospitality taxes can hurt both consumers and tourism. By contrast, lowering or eliminating these taxes, as LD 908 proposes, offers a more sustainable approach to supporting Maine's restaurants and lodging businesses.

New York is currently considering a similar legislative approach—suspending part of the state sales tax during specific weeks of the year to encourage dining out. If the committee is not inclined to move forward with LD 908 as presented, it may wish to explore a targeted, time-limited suspension of meals taxes, or all sales taxes, as a potential alternative.

Maine's restaurant industry is integral to our state's identity, yet its importance can sometimes be taken for granted. Most restaurants are small, independent, and family-run, collectively shaping the allure of Maine tourism.

Thank you again to Senator Martin and the cosponsors of the bill for your support of Maine's hospitality industry. I would be happy to answer any questions that you have.