

Testimony in Support of LD 1047 An Act to Impose an Additional Tax on Certain Unearned Income

3/26/25

Sen. Grohoski, Rep. Cloutier, and members of the Taxation Committee, my name is Maura Pillsbury and I am a policy analyst at Maine Center for Economic Policy. We are testifying in support of LD 1047.

LD 1047 would create a 4% surcharge on capital gains over \$250,000 for single filers, \$375,000 for heads of households, and \$500,000 for those married filing jointly. Capital gains are income that is generated from selling assets that have grown in value since they were purchased, such as property, collections, and stocks. This proposal would primarily impact the top 1% of income earners in Maine. This would equate to an income tax increase of less than 2% for top earners in the state.ⁱ

Currently Maine does not differentiate how much it taxes earned vs. unearned income. We believe unearned income should not be taxed at the same rate as income earned through work.

Capital gains are one of the main drivers of income inequality. Income from capital gains is highly concentrated at the top.ⁱⁱ Over 80% of capital gains in Maine are paid to those with income over \$200,000.ⁱⁱⁱ This is a passive income source that allows greater wealth to flow to those who are already well off. The average income for someone with a tax increase under this proposal is \$1.2 million. These are the beneficiaries of the tax cuts proposed at the federal level, which will cost \$400 trillion over the next 10 years, and primarily benefit the wealthy.

Most people's most valuable asset is their home. State and federal law exempts up to \$250,000 of capital gains from the sale of a primary residence for single filers, and up to \$500,000 for joint filers. This proposal does not change that—it would hold most homeowners harmless, unless they have a high value home that has significantly appreciated in value.

Last year, Minnesota enacted a net investment tax, which included other types of unearned income in addition to capital gains, such as interest and dividends. We would urge the committee to consider broadening the bill similar to this law.^{iv}

Maine is facing a budget shortfall and must increase revenues to help avoid cuts of vital programs. Taxing capital gains is a fair and progressive means of doing so.

Thank you for your time. I would be happy to answer any questions.
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ⁱ Based on ITEP analysis

ⁱⁱ Washington Center for Equitable Growth. "The distribution of capital gains in the United States." 26 Feb 2025. <https://equitablegrowth.org/working-papers/the-distribution-of-capital-gains-in-the-united-states/>

ⁱⁱⁱ IRS Individual income tax state data, 2022. <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-state-data>

^{iv} 2024 Minnesota Statutes. 290.033 NET INVESTMENT INCOME TAX. <https://www.revisor.mn.gov/statutes/cite/290.033>