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Testimony of Nate Cloutier

Before the Joint Standing Committee on Taxation
March 26, 2025

In Opposition to LD 1047, *"An Act to Impose an Additional Tax on Certain Unearned Income"* & LD 1089, *"An Act to Permanently Fund 55 Percent of the State's Share of Education by Establishing a Tax on Incomes of More than $1,000,000"*

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 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 respectfully oppose LDs 1047 and 1089.

LD 1047 would impose an additional 4% tax on capital gains above certain income thresholds depending on filing status. LD 1089 would impose a 4% surcharge on income tax on taxable income in excess of $1,000,000 to fund prekindergarten to grade 12 education. These proposed tax increases, particularly on capital gains and higher income brackets, threaten to create serious, unintended consequences for our industries.

Maine's hospitality and tourism businesses already operate in an environment marked by significant seasonal and economic fluctuations. Additional taxes on capital gains and high-income brackets will further strain these businesses by discouraging the reinvestments necessary for growth and innovation. Research indicates that tax differentials can influence high-income individuals' decisions to relocate. For instance, analyses of IRS migration data reveal that states with higher tax burdens often experience net outflows of income tax filers, while states with more favorable tax climates, such as Florida and Texas, see net gains[1].

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[1] Yushkov, A. (2024, December 9). *How do taxes affect interstate migration? | State migration trends*. Tax Foundation. https://taxfoundation.org/data/all/state/taxes-affect-state-migration-trends-2024/

Moreover, academic studies have suggested that while tax-related migration among high earners is one factor among several, the cumulative effect over time can erode the local economic base. This erosion not only limits the reinvestment of capital in Maine's industries but also weakens consumer spending, as reduced high-income residency directly impacts the local market[2]. Complementary analyses from policy think tanks like the Tax Foundation reinforce these findings, showing that high-tax environments can diminish a state's attractiveness for both business expansion and personal relocation[3].

Higher operating costs inevitably translate into higher prices for consumers. If our industries pass on these increased costs, Maine's tourism and hospitality sectors risk losing visitors to destinations with lower taxes and, consequently, lower prices. This potential out-migration of both investment and consumer spending would weaken the competitive edge that has long made Maine a premier destination for both leisure and business.

We are also concerned that the title of LD 1089 may unintentionally mislead the public by implying a guaranteed, permanent funding source for education. While the bill states that revenue collected must be used to fund public pre-K through grade 12 education and asserts that education funding will be maintained at 55%, Maine courts have determined one legislature cannot bind future legislatures. Future lawmakers could adjust statutory language to redirect these funds elsewhere. History has shown that funds originally established for specific purposes—such as the Fund for a Healthy Maine—have been diverted to cover other budgetary needs. Given this precedent, there is no assurance that the revenues generated by LD 1089 would remain exclusively dedicated to education in the long term.

The consequence of these proposals is a twofold challenge: increased operating costs that put Maine businesses at a disadvantage and a gradual loss of capital and talent to states with more competitive tax structures. This combination threatens the very foundation of Maine's hospitality and tourism sectors—industries that support thousands of jobs and are integral to our state's cultural and economic vitality.

Thank you for your time and consideration of our concerns. We remain committed to supporting Maine's vibrant tourism industry and welcome any further discussion on policies that promote sustainable economic growth.

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[2] Young, C., Varner, C., Lurie, I. Z., Prisinzano, R., Stanford University, U.S. Department of the Treasury, & Young, C. (2016). Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data. In *American Sociological Review* (pp. 421–446). https://doi.org/10.1177/0003122416639625

[3] Higgs, M., & Higgs, M. (2024, December 4). *Tax competitiveness and interstate migration*. Tax Foundation. https://taxfoundation.org/blog/interstate-migration-tax-competitiveness/