

POLICY BRIEF

KEY FINDINGS

▶ **Disproportionate Impact on Employers and Small Businesses**

▶ **Slower Economic Growth and Reduced Investment**

▶ **Risk of Talent Loss and Reduced Attraction of High-Value Workers**

▶ **Widening Competitive Disadvantage Relative to New Hampshire**

▶ **Increased Revenue Volatility and Budget Risk**

LD 229, LD 1089: HIGHER TAXES. SLOWER GROWTH. FEWER JOBS.



BILL BREAKDOWN

LD 1089 (HP 711) establishes a new 4% income tax surcharge on high incomes, applying an additional tax on Maine taxable income greater than \$1 million. This bill alone would make the top marginal tax rate 11.15%. The revenue raised by this surcharge is dedicated to funding K–12 education. LD 1089 would increase the state’s reliance on a narrow group of high-income taxpayers to support ongoing education costs.

LD 229 (HP 152) restructures Maine’s income tax brackets and raises the top income marginal tax rate to 8.95% starting in tax year 2026. That top rate would apply to individuals with taxable income above \$500,000 annually. Although framed as a fairness proposal, the increase falls heavily on small business owners and professionals whose business income is taxed through the individual income tax system, directly affecting the resources they use to hire workers and invest in their businesses.

OUR ANALYSIS

Either one of these bills could individually cause serious damage to Maine’s economy if passed.

If both bills were passed, it would stack multiple tax increases on the same income, pushing Maine’s top tax rate to nearly 13%. This would result in higher costs for business owners and professionals who invest in Maine and provide many of the state’s higher-paying jobs.

Because many Maine employers pay taxes through the individual income tax, these higher rates directly affect hiring, expansion, and wage decisions.

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DAMAGES OF TAX INCREASES ON GDP

The Macroeconomic Effects of Tax Changes, a peer-reviewed economic study conducted by researchers at University of California, Berkeley finds that when income taxes are increased there is a measurable slowdown in economic activity. The study shows that a tax increase equal to one percent of gross domestic product (GDP) results in a decline in real GDP growth approaching three percent, with the largest impact occurring approximately three years after enactment. In other words an increase in top marginal income tax rates is associated with a reduction in state GDP growth.

The reduction in output is driven primarily by declines in household consumption and business investment. When output falls, employers are more likely to slow hiring, reduce hours, or delay wage increases, directly affecting working families. Over time, weaker economic growth discourages private investment and innovation. This loss of investment is very real, with studies finding that a 5% increase in marginal tax rate reduces average capital investment by about 9.9%, especially in small firms. This weaker growth and loss of investment make it harder for communities to sustain jobs and long-term prosperity.

LOSS OF TALENT, WEALTH FLIGHT, FAILURE TO ATTRACT

It is heavily debated the levels at which increases in income taxes lead to wealthy individuals fleeing a state. However, recent research published in the American Economic Review examines how state personal income taxes affect the geographic location of top earners. The study finds that "star" scientists, executives, and other high-impact workers are significantly more likely to relocate in response to higher state income tax rates. According to our calculations, LD 299 could result in 3.24% of star scientists and high earners fleeing the state, and LD 1089 could result in 7.2% of star scientists and high earners fleeing the state.

This migration response is economically meaningful, not merely statistically detectable. The effects are substantially larger in smaller states like Maine, where the departure of even a limited number of highly productive individuals can have an outsized impact on innovation, tax revenues, and economic growth. In addition to people leaving Maine over increases in taxes, LD 229 and LD 1089 risk dissuading potential

future Mainers from moving here. The growth of remote work has increased the feasibility of tax-motivated relocation, particularly for high earners and business owners. This makes stacked tax increases riskier today than in earlier periods.

NEW HAMPSHIRE ADVANTAGE

If LD 1089 and LD 229 were enacted, they would further widen the competitive gap between Maine and New Hampshire. Currently despite having a similar population and location New Hampshire's GDP is over 20 billion higher than Maine's, the economic growth is higher, and New Hampshire's personal income growth (3.8%) more than doubled Maine's (1.6%).

New Hampshire's complete lack of an income tax already gives it a clear advantage, and higher income taxes in Maine would make that difference even more pronounced. For business owners, professionals, and multi-state firms weighing where to invest or expand, the financial incentive to choose New Hampshire would grow stronger. Over time, this dynamic would reinforce the so-called "New Hampshire Advantage," drawing jobs, investment, and economic activity away from Maine and toward its southern neighbor.

REVENUE VOLATILITY, LONG-TERM BUDGET RISK

Both LD 1089 and LD 229 increase Maine's reliance on a narrow group of high-income taxpayers and business owners for ongoing state revenue. Income at the top of the tax base, particularly business profits and investment income, fluctuates much more sharply with the economy than wages earned by middle and lower income workers. During economic downturns, this income declines quickly, causing revenue from high marginal income tax rates and surcharges to fall faster than overall state revenues.

This creates volatility which can prove dangerous when the revenue is used to fund ongoing obligations such as education and public services, which require stable, predictable funding year after year. When revenues fall short, lawmakers are often forced to choose between cutting services, tapping one-time funds, or raising taxes again. By increasing dependence on a volatile tax base, these bills raise the risk of future budget shortfalls and repeated tax increases, making long-term budgeting more difficult and less predictable for schools, municipalities, and taxpayers alike.

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REAL LIFE SCENARIOS: HOW BILLS WILL AFFECT MAINERS

Policy debates often focus on tax rates and revenue totals, but those numbers don't capture how changes to the tax code play out in everyday life.



To fully understand the effects of LD 1089 and LD 229, it is important to consider how higher income taxes affect jobs, wages, and hiring decisions that shape the economic security of Maine families.

The following scenarios illustrate how these bills could affect workers, small business owners, and employers across the income spectrum, and why tax increases aimed at a narrow group can still have broader consequences for communities throughout the state.

see next page for scenario breakdown

REAL LIFE SCENARIOS

SCENARIO 1: LOW-INCOME WORKER

Jamie earns \$35,000 working full-time at a hotel in Bangor. Under LD 229, Jamie's tax bill changes little and may slightly decrease due to lower rates at the bottom bracket. LD 1089 does not apply. However, Jamie's employer is a small, family-owned business taxed through the individual income tax code. As the owners face higher marginal rates under LD 229, they delay adding staff and reduce overtime. Jamie doesn't see a tax increase on paper, but feels the impact through slower wage growth and fewer advancement opportunities.

SCENARIO 2: MIDDLE INCOME SMALL-BUSINESS HOUSEHOLD

Chris and Barbara are married, file jointly, and earn \$350,000 running a small construction company with six employees. Under LD 229, more of their income is taxed at 7.75% instead of 7.15%, increasing their annual tax bill by roughly \$150–\$200. LD 1089 does not apply. While the dollar increase seems modest, it raises the marginal tax rate on profits used to buy equipment or hire another worker, leading them to postpone adding an apprentice and delay a truck purchase, decisions that directly affect local jobs.

SCENARIO 3: HIGH-INCOME PROFESSIONAL EMPLOYER

Dr. Morgan is a single physician who owns a Maine medical practice, earns \$1.2 million in Maine taxable income, and employs 12 staff. Under LD 229, her top marginal rate rises from 7.15% to 8.95%, increasing her tax bill by about \$12,600. LD 1089 adds a 4% surcharge on income above \$1 million, costing another \$8,000. To offset the increase, Dr. Morgan delays hiring an additional nurse and reduces staff bonuses. Although the tax is paid by a high earner, the employment and wage effects are felt by ordinary Maine workers.

CONCLUSION

LD 1089 and LD 229 would place greater pressure on the businesses, professionals, and employers who drive most of Maine's job creation and investment.

Peer-reviewed research and real-world examples suggest that higher income taxes increase the risk of slower hiring, reduced expansion, and lost economic opportunities, often appearing quietly over time as jobs that are never created.

At the same time, these bills increase Maine's reliance on a narrow and volatile tax base. High-income earnings and business profits fluctuate sharply during economic downturns, making them a risky foundation for funding ongoing commitments like education and public services. This increases the likelihood of future budget

shortfalls and the need for repeated tax increases.

Finally, these proposals would widen Maine's competitive gap with neighboring states, particularly New Hampshire, which already outperforms Maine in economic growth and imposes no income tax. At a time when remote work and business mobility are increasing, higher income taxes make Maine less attractive to the people and investments the state needs to grow.

LD 1089 and LD 229 risk weakening Maine's economy, reducing job growth, and undermining fiscal stability. Lawmakers should reject these proposals and pursue revenue solutions that support sustainable economic growth and a stable tax base.



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