

The Maine Heritage Policy Center Testimony to Oppose LDs 65, 156, 1110, & 1254 Local Option Sales Tax Bills

Senator Chipman, Representative Tipping and distinguished members of the Joint Standing Committee on Taxation, my name is Adam Crepeau. I am a policy analyst at The Maine Heritage Policy Center. Thank you for the opportunity to testify in opposition to LDs 65, 156, 1110, and 1254.

The Maine Heritage Policy Center is opposed to creating a local option sales tax in the state of Maine. The state already ranks 34th in the nation for overall tax rates. Meanwhile, New Hampshire ranks 18th on that same list.¹ New Hampshire maintains a low ranking because the state does not impose an income or sales tax. Maine residents, including legislators who live in border towns, already flock to the Granite State to consume goods and services. Allowing municipalities to impose a local option sales tax would likely accelerate cross-border consumerism to New Hampshire.

In fact, research shows that consumers from high-tax areas leave to purchase goods and services in low-tax areas.² It was estimated that the loss to border counties in Vermont “due to the sales tax differential” was \$540 million in retail sales and 3,000 retail jobs in 2007.³ Vermont border towns have consistently lost revenue to New Hampshire.⁴ This phenomenon is not unique to Vermont. Per capita retail sales in New Hampshire border counties have significantly out-performed Maine border counties since the implementation of Maine’s sales tax in 1951. In addition, a 2008 analysis concluded that a conservative estimate of total savings on the sales tax, cigarette tax and gasoline tax per year on Saturdays alone for Maine residents that shopped in New Hampshire was over \$21 million.⁵ The New Hampshire economy has clearly benefited from the sales tax in both Maine and Vermont.

Maine’s sales tax currently sits at 5.5 percent. If these bills were to pass, that rate could easily increase, especially in municipalities that have wish lists that lack funding. It is not far-fetched to assume that some municipalities, especially tourist destinations, would impose relatively high rates. In addition to local sales taxes being potentially high, municipalities would inevitably have different tax rates than their neighbors. This would result in a patchwork of different sales tax rates in municipalities across the state. A patchwork structure would be confusing for consumers who will undoubtedly take notice and cross state lines to do their shopping in New Hampshire as a result of a local option sales tax.

¹ <https://wallethub.com/edu/best-worst-states-to-be-a-taxpayer/2416/>

² https://taxfoundation.org/sales-tax-rates-2019/#_ftn10

³ <http://www.documentcloud.org/documents/603373-the-unintended-consequences-of-public-policy.html>

⁴ Ibid.

⁵ <https://mainepolicy.org/the-great-tax-divide-maines-retail-desert-vs-new-hampshires-retail-oasis/>

Further, the sales tax disproportionately harms low-income Mainers. A local option sales tax would necessitate a larger portion of income from Mainers who make \$30,000 annually than those who make \$100,000 a year. The lowest 20 percent of income-earners spend nearly seven percent of their income on sales and excise taxes whereas middle-income earners and the wealthy pay a smaller percentage of their income on sales and excise taxes.⁶ Therefore, low-income Mainers will struggle more than they already do to purchase basic necessities if these bills become law.

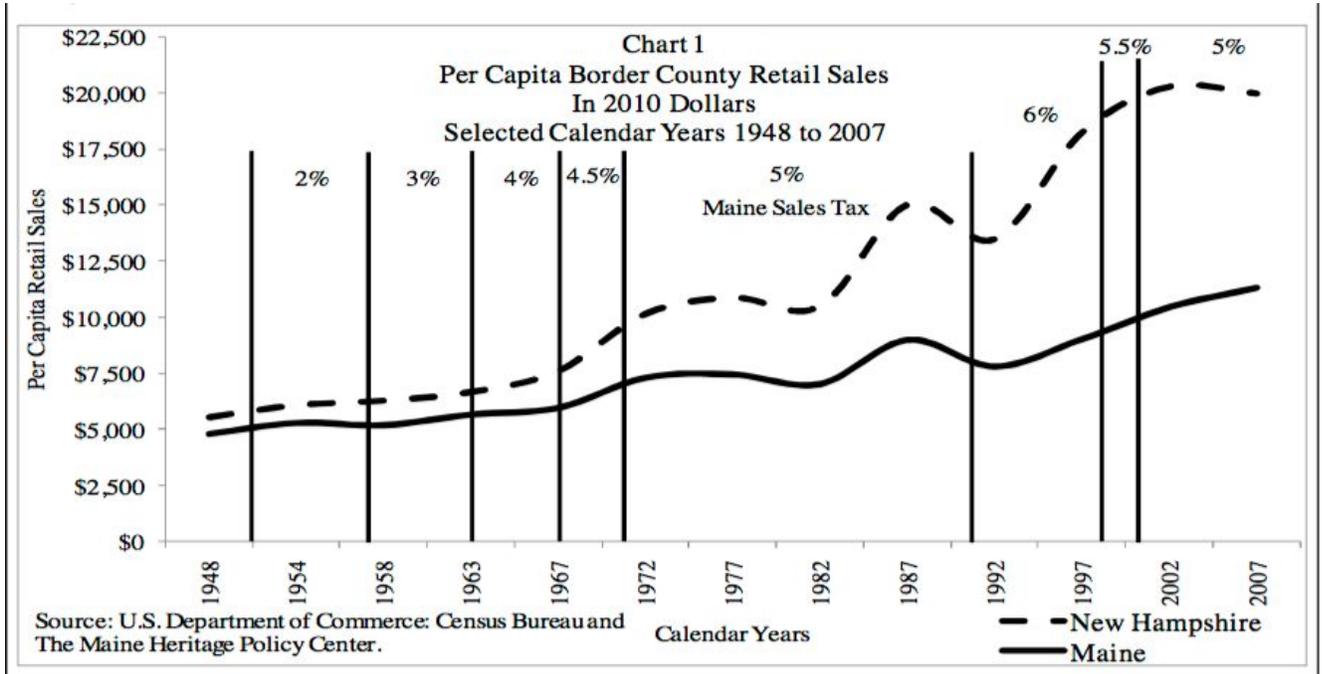
The Maine Municipal Association estimates Portland would receive \$16.8 million through a 1 percent local option sales tax.⁷ Nickel and diming residents to increase revenue for municipal projects without making necessary budgetary decisions to cut spending is unsustainable. Municipalities are likely to see an increase in revenue sharing funds and additional K-12 education funding from the state.⁸ Year after year, state and local governments continue to grow beyond their means and, as a result, continue to increase taxes and fees on the Maine people. Why do municipalities across the state need to collect a local option sales tax on top of newly projected funding sources?

To that end, The Maine Heritage Policy Center urges the committee to vote, “Ought Not to Pass” on LDs 65, 156, 1110, and 1254. Thank you.

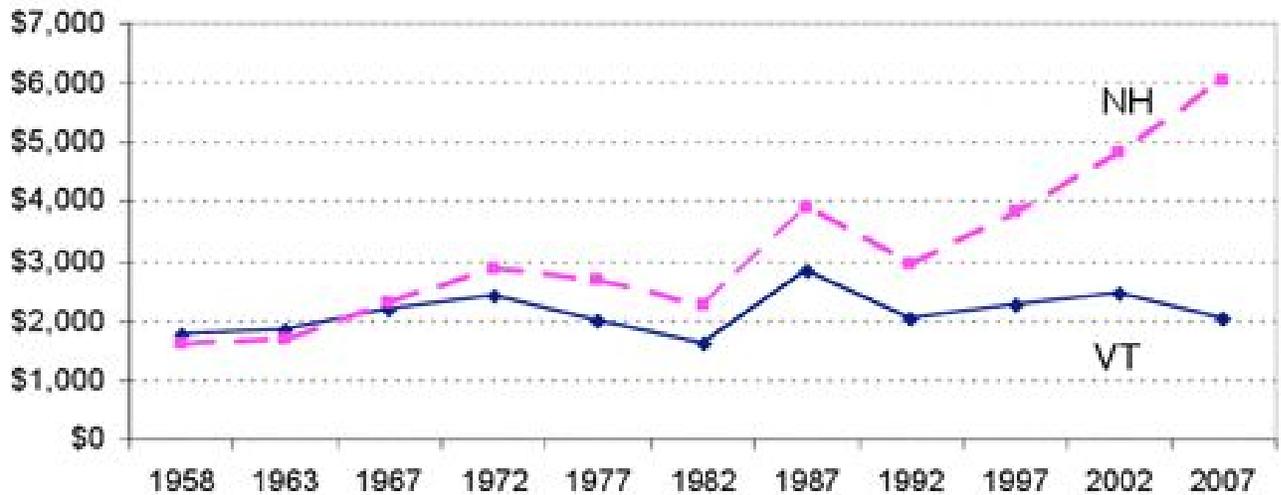
⁶<https://www.citylab.com/life/2015/01/how-local-sales-taxes-target-the-poor-and-widen-the-income-gap/384643/>

⁷<https://www.pressherald.com/2018/12/01/bill-would-allow-local-option-sales-tax-to-help-maine-cities-raise-revenue/>

⁸<https://www.maine.gov/budget/sites/maine.gov.budget/files/inline-files/Governors%20Biennial%20Budget%20Overview%20FY%2020.21.pdf>



Per Capita Sales in Border Counties in Tax Sensitive Subsectors



Source: Northern Economic Consulting, Inc.