

MAINE STATE LEGISLATURE

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STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE

SUMMARY REPORT
TO THE
ONE HUNDRED AND SIXTH LEGISLATURE

VOLUME TWO

JANUARY, 1973



STATE OF MAINE

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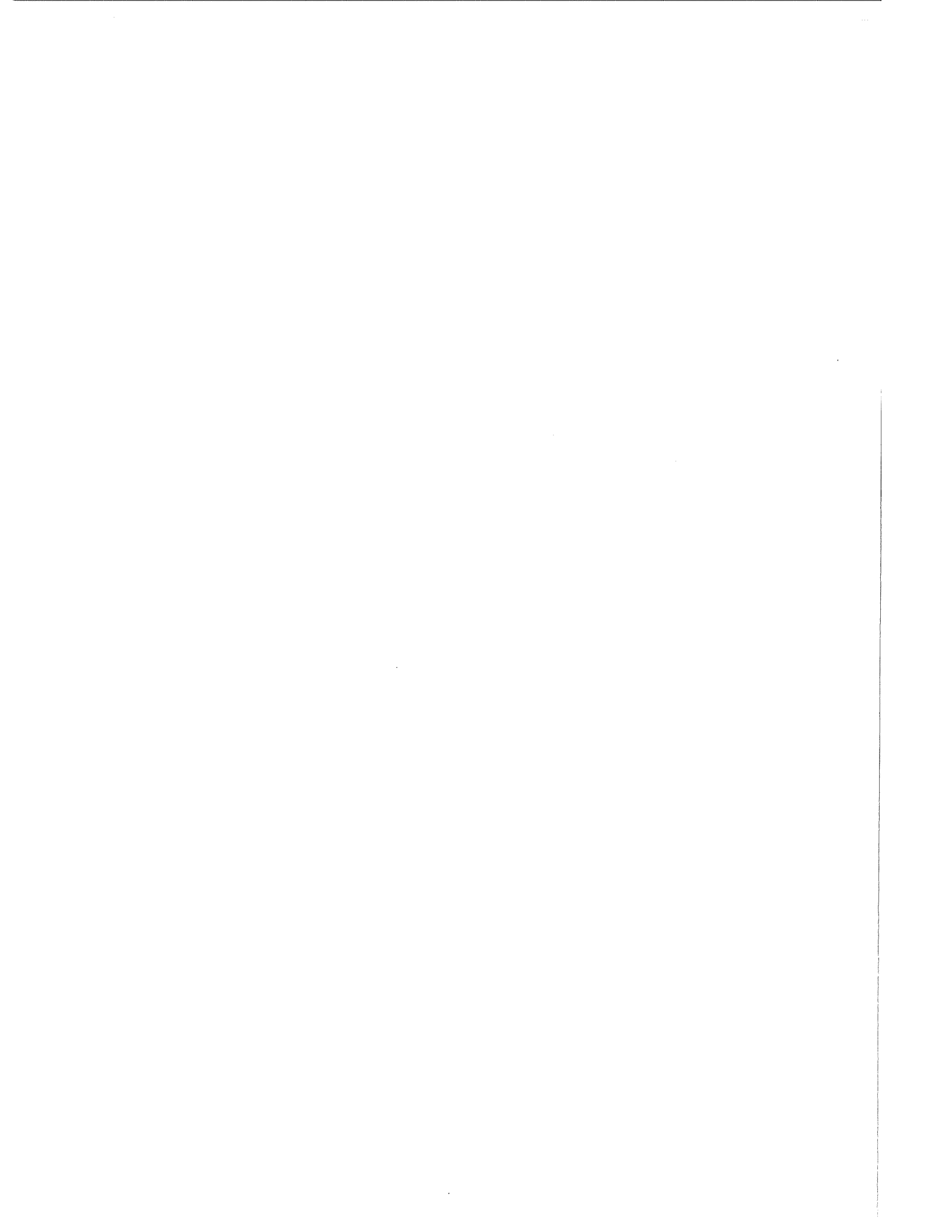
***Replaced Representative Gill

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STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE
STATE HOUSE
AUGUSTA, MAINE 04330

January 3, 1973

To the Members of the 106th Legislature:

The Legislative Research Committee hereby has the pleasure of submitting to you Volume II of its report on activities for the past two years.

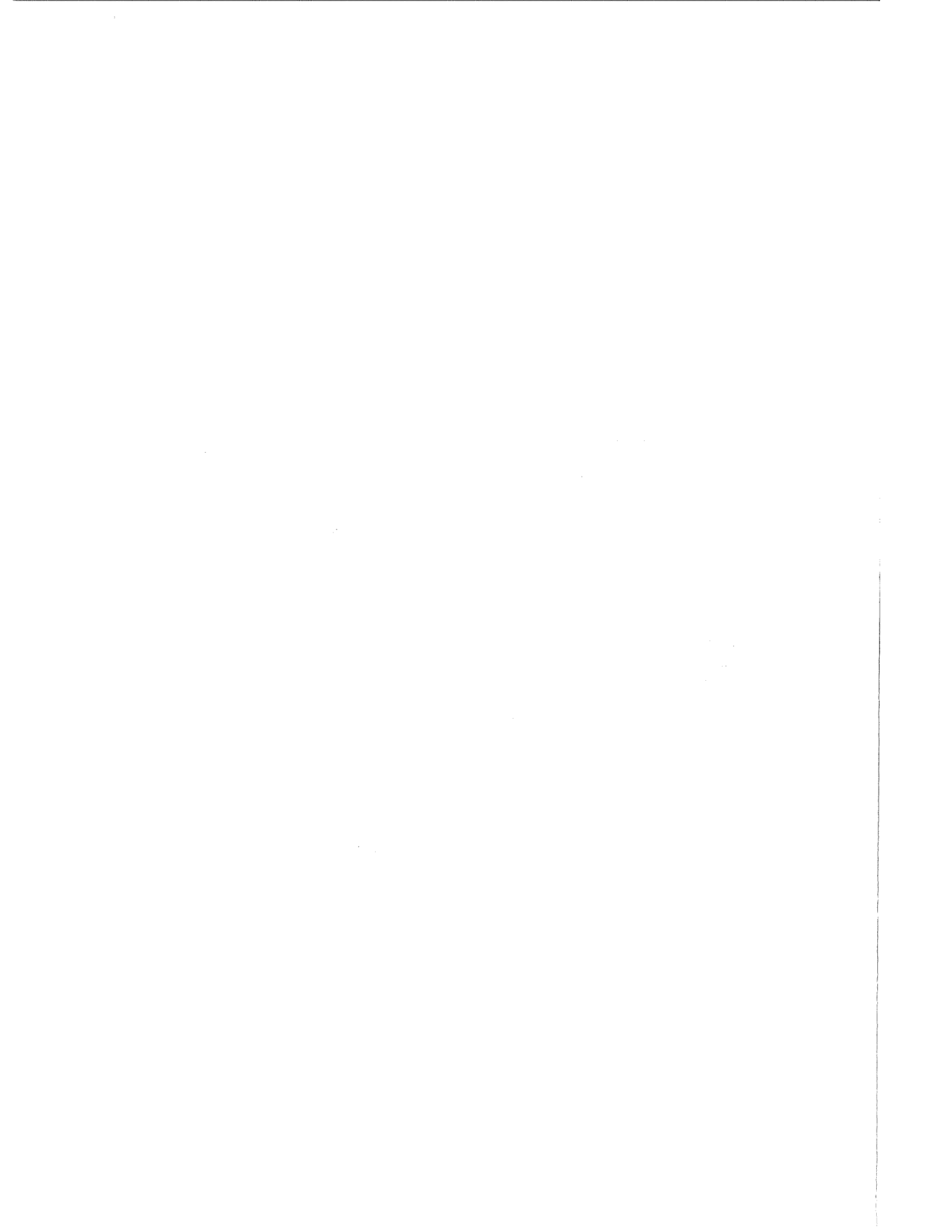
This volume, designated as the second summary volume, is a continuation of both, assigned and unassigned matters undertaken by the Committee and contains findings and recommendations pursuant thereto.

Again, we of the Committee, gratefully acknowledge our indebtedness to the many individuals, organizations and agencies for their valuable contributions to the work of the Committee and it is our hope that the information contained in this report will be of assistance to the members of the 106th Legislature and the people of the State of Maine.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "J. Sewall".

JOSEPH SEWALL, Chairman
Legislative Research Committee



STATE OF MAINE
LEGISLATIVE RESEARCH COMMITTEE

REPORT ON
TAX RELIEF FOR THE ELDERLY
to the
ONE HUNDRED AND SIXTH LEGISLATURE

JANUARY, 1973
Legislative Research Committee
Publication 106-17



SUBCOMMITTEE ON TAX RELIEF FOR THE ELDERLY

CHAIRMAN - Armand J. Fortier

Walter L. Bunker

Gerard P. Conley

Roland A. Gauthier

John L. Martin

Richard W. Stillings

TAX RELIEF FOR ELDERLY

WHEREAS, many of Maine's senior citizens who are retired on fixed incomes are in need of relief from the burdens resulting from property taxes; and

WHEREAS, the property tax relief for the elderly proposal contained in Legislative Document 1817, "An Act to Relieve Certain Elderly Householdors from the Extraordinary Impact of Property Taxes," may provide the relief needed by Maine's senior citizens; now, therefore, be it

ORDERED, the House concurring, that the Legislative Research Committee be authorized and directed to study the subject matter and the long range funding requirements of the Bill, "An Act to Relieve Certain Elderly Householdors from the Extraordinary Impact of Property Taxes," House Paper No. 1400, Legislative Document No. 1817, introduced at the regular session of the 105th Legislature; and be it further

ORDERED, that the Committee study the provisions of the Bill, "An Act to Relieve Certain Elderly Householdors from the Extraordinary Impact of Property Taxes" and the Federal Welfare Law and Regulations to determine whether persons who will receive relief under said Bill who also receive Aid to the Aged, Blind and Disabled under Part 2 of Title 22 of the Revised Statutes will continue to receive as high a level of assistance under the Aid to the Aged, Blind and Disabled program; and be it further

ORDERED, that the State Bureau of Taxation and the State Department of Health and Welfare be directed to furnish such information and assistance as the Committee deems necessary to carry out the purposes of this Order; and be it further

ORDERED, that the Committee report its findings, together with any necessary recommendations, at the next regular or special session of the Legislature.

SP 677	In Senate Chamber	House of Representatives
Berry	Read and Passed	Read and Passed
Cumberland	June 22, 1971	June 22, 1971
	Sent down for concurrence	In concurrence

TAX RELIEF FOR THE ELDERLY

With a growing interest in providing some form of tax relief to elderly persons and other persons living on fixed incomes, legislation has now been enacted in eleven or more states. (summary attached)

Approaches for granting such relief are numerous but basically follow one of two courses: The Homestead exemption and the "Circuit-Breaker" plan.

In a detailed study and staff memorandum dated November 24, 1971, the Legislative Research Council of South Dakota described the various methods of relief in the following manner:

The first method utilizes the exemption concept to the property tax. Under this system, criteria are developed which qualify a segment of the citizenry for tax relief. These individuals are allowed an exemption on their property taxes. Some states allow an exemption of a stated amount of equalized valuation (Alabama, Delaware, Florida, etc.), other states allow a limited credit which may be applied to the amount of tax due (Idaho, New Jersey, Washington, etc.), and yet other states allow some reduction in assessed valuation (Illinois, North Dakota, Oregon, etc.).

The second method, employed by several states, is the "circuit-breaker" system which provides property tax relief when property taxes reach some certain level. Relief may be granted either when the property exceeds some set percentage of a taxpayer's income or when the taxes exceed some certain percentage of the market value of the taxable property. Here again, criteria are developed as to who

qualifies for benefits under such system. Qualified individuals are then generally allowed a credit against their state income tax liability for a percentage of property taxes paid. If the amount of credit allowable exceeds the amount of income tax due, the state may refund the excessive amount to the individual. In some states where the "circuit-breaker" system is employed, relief is given also to qualified individuals who rent rather than own their homestead (Wisconsin, Minnesota, etc.). A stated percentage of rent paid is usually considered equivalent to property taxes and is treated the same as property taxes paid by the homeowner.

The exemption, or homestead exemption, as it is frequently called, is administered at the local level and results in a reduction of income to the functions of local government supported by the property tax. However, the "circuit-breaker" system is administered at the state level and results in a reduction of the amount of state income taxes collected, either by the granting of a credit against income tax liability or utilization of income tax collected for rebates (due to allowable credits exceeding the amounts of tax due by taxpayers entitled to such credits), and does not affect financing of local government functions supported by the property tax. The possibility of such rebates coming from sources other than income tax collections should be noted. It is interesting to note that the State of Michigan has adopted an exemption method and incorporates certain characteristics of the "circuit-breaker" system. The state treasury reimburses local elements of government for lost revenues due to homestead exemptions.

Under either system, the criteria developed for qualified individuals are usually tied to the age of the person and the amount of income. Generally the systems apply to persons 65 years of age or older with annual income not exceeding a certain amount. For example, some cut-off points are: Michigan, \$6,000; North Dakota, \$3,000; and Connecticut, \$3,000 if single, or \$5,000 if married. In some states, the amount of credit allowed under the "circuit-breaker" system is graduated on the basis of the amount of income of the household.

Another version of relief is the deferred payment plan. It would generally be used in conjunction with an exemption plan. The unique characteristic of the deferred plan is that it allows an elderly, fixed income individual to defer payment of property taxes until the property is sold or goes into an estate after the person's death.

Of these basic approaches for providing relief, the State of Maine utilizes the "circuit-breaker" method which is administered by the State through the Bureau of Taxation in conjunction with the state income tax thus minimizing any administrative cost to local government.

Against this background under a Joint Order of the 105th Legislature; Senate Paper 677, the Legislative Research Committee has studied the subject matter and the long-range funding requirements of existing law which was brought about by the Bill, "AN ACT to Relieve Certain Elderly Householders from the Extraordinary Impact of Property Taxes," House Paper 1400, Legislative Document 1817, which was introduced at the regular session of the 105th Legislature and later passed to be enacted as chapter 503 of the public laws of 1971.

The Committee fully recognizes the difficulties that the

elderly are encountering today. The present relief being granted does not guarantee a satisfactory standard of living for all aged persons nor does the welfare relief granted by both State and Federal Governments guarantee a level of relief the Committee considers adequate for the elderly.

Under the present law (Chap. 503 P.L. 1971) for the current year 1972 there has been direct grants given to the recipients of approximately one million seven hundred thousand dollars to approximately seventeen thousand recipients with an average grant of one hundred five dollars each. These figures are approximate due to the fact that the time for claiming this relief has been extended to November 15, 1972, and final figures could not be tabulated and made available at the time of this report.

However, if the federal contribution of one million two hundred thousand dollars generated by the six hundred thousand dollars transferred from this account to the welfare department for the aged is added to these figures, then the total receipts distributed to the elderly amount to approximately three and one half million dollars or about the amount of the original appropriation for this account.

The 1.2 million dollars generated by the federal government substantially increased the benefits of approximately 13,500 aged or disabled welfare recipients. The cost to the state will be somewhat less than two and one half million dollars. The difference being the federal money generated.

In view of this, it is the opinion of this Committee, after considerable consultation and study, that the present law could be maintained at an approximate cost of two and one half million dollars per year for the next biennium providing the present

contributions of federal funds are still available.

The Committee is also of the opinion that the program of Tax Relief to the Elderly should continue to be administered through the Bureau of Taxation and recommends accordingly.

STATE FINANCED AND ADMINISTERED RESIDENTIAL PROPERTY TAX RELIEF FOR
 PROTECTING LOW INCOME HOUSEHOLDS FROM PROPERTY TAX OVERLOADS
 (The "Circuit-Breaker")

State	Beneficiaries Description	Income Ceiling	Tax Relief Formula	Form of Abatement and Estimated Per Capita Cost	Date of Adoption	Statutory Citation
Wisconsin	Homeowners & renters 65 & older	\$5,000	See footnote 1/	State income tax credit or rebate Cost -- \$1.50 (1968)	1963	Chap. 71, Sec. 71.09 (7)
Minnesota	Homeowners & renters 65 & older	\$5,000	Relief ranges from 100% to 8% depending on amount of property tax payment and household income.	State income tax credit or rebate Cost -- \$0.50 (1968) This aid is in addition to a general State-financed property tax relief that approximates 35% of the homeowner's tax bill)	1967	Chap. 290, Sec. 290.0601 et seq.
California	Homeowners age 62 & older; no relief for renters	\$10,000	Relief ranges from 95% of tax payment if household income is less than \$1,000 to 1% of tax payment if household income is \$10,000	State rebate only Cost--\$0.40 (1969)	1967	Revenue & Taxation code Div. E., Sec. 19501 et seq
Vermont	Homeowners & renters age 65 & older	Not explicit	Relief limited to that part of tax payment in excess of 7% of household income times a local rate factor that varies by tax rate of local community 2/	State income tax credit or rebate Cost -- \$1.25 (1969)	1969	H.B. 222
Kansas	Homeowners age 65 & older; no relief for renters	\$3,700	Same as Wisconsin tax relief formula	State income tax credit or rebate Cost--NA	1970	H.B. 1253

STATE FINANCED AND ADMINISTERED RESIDENTIAL PROPERTY TAX RELIEF FOR
 PROTECTING LOW INCOME HOUSEHOLDS FROM PROPERTY TAX OVERLOADS
 (The "Circuit-Breaker") Cont'd.

State	Beneficiaries Description	Income Ceiling	Tax Relief Formula	Form of Abatement and Estimated Per Capita Cost	Date of Adoption	Statutory Citation
Colorado	Homeowners & renters age 65 and older	\$2,400 single \$3,700 married (In addition, net worth during year must be less than \$20,000.)	Relief limited to 50% of the tax payment and cannot exceed \$200. The credit or refund is reduced by 10% of income over \$500 for individuals and 10% of income over \$1,800 for husband and wife. ³	State income tax credit or rebate <u>Cost--NA</u>	1971	Chap. 138, Secs. 138-1-20 & 21
Maine	Homeowners & renters age 65 & older for males and 62 & older for females (At least 35% of household income must be attributable to claimant)	\$4,000 (In addition, net assets must not exceed \$30,000)	Relief equal to 7% of the difference between household income and \$4,000. Limited to the total property tax levied or 20% of rent paid.	State rebate only <u>Cost--NA</u>	1971	Title 36 Chap. 901, Secs. 6101-6120
New Jersey	Homeowners age 65 & older	\$5,000 (exclusive of social security benefits)	Deduction from tax bill of \$160 or amount of tax liability whichever is less.	Reduction of tax bill. One half of cost of deduction reimbursed to municipality by the State <u>Cost--NA</u>	1953(local)1971 (State-local)	Ch. 172 (Laws 1963 Sec.54:4-8.40--54:48.51 Ch. 20 (Laws 1971)

STATE FINANCED AND ADMINISTERED RESIDENTIAL PROPERTY TAX RELIEF FOR
 PROTECTING LOW INCOME HOUSEHOLDS FROM PROPERTY TAX OVERLOADS
 (The "Circuit-Breaker") Cont'd.

State	Beneficiaries Description	Income Ceiling	Tax Relief Formula	Form of Abatement and Estimated Per Capita Cost	Date of Adoption	Statutory Citation
Pa.	Homeowners: age 65 & over; Widows age 50 & over; permanently disabled persons	\$7,500	Relief ranges from 100% of tax (max.\$200) when household income is less than \$1,000 to 10% where such income is between \$6,000 and \$7,500	State rebate only <u>Cost--NA</u>	1971	Act No. 3, H.B. 192

Exhibit: State Financed and State-local Administered Property Tax Relief (Selected States)

Iowa	Homeowners: 65 & older or totally disabled	\$4,000	Deduction from tax bill of \$125 or amount of tax liability which ever is less	Reduction of tax bill. Cost of deduction paid by State to each taxing district	1967	Ch. 356 (Laws 1967 Ch. 1208 (Laws 1970, H.F. 654 (Laws 1971)
Oregon	Homeowners	None	Relief based on amount by which property taxes exceed percentage of household income. The % ranges from 3% on income up to \$1,500 (max. relief \$400) to 7% for incomes in excess of \$8,000 (max. relief \$100) ⁴	Taxpayers initial tax bill is reduced by the amount of relief granted by the Dept. of Revenue and the Dept. pays to the counties the amount of relief granted.	1971	Ch. 747 (H. B. 1639)

STATE FINANCED AND ADMINISTERED RESIDENTIAL PROPERTY TAX RELIEF FOR
PROTECTING LOW INCOME HOUSEHOLDS FROM PROPERTY TAX OVERLOADS
(The "Circuit-Breaker")
(Concl'd)

1/ Household income--\$1,000 or less--relief ranges from 75% of amount by which property tax exceeds 3% of household income between \$500 and \$1,000; household income--over \$1,000--60% of amount by which property tax exceeds 3% of household income between \$500 and \$1,000, 6% of income between \$1,000 and \$1,500, 9% of income between \$1,500 and \$2,000, 12% of income between \$2,000 and \$2,500, and 15% of all household income over \$2,500. The maximum property tax to be used for this credit is limited to \$330.

2/ The Commissioner shall annually prepare and make available the local rate factors by arraying all municipalities according to their effective tax rate and dividing the population of the State into quintiles from such array with those having the lowest effective tax rates being in the first quintile. The local rate factors shall be as follows: first quintile, 0.6; second quintile, 0.8; third quintile, 1.0; fourth quintile, 1.2; fifth quintile, 1.4. The amount of property taxes or rent constituting property taxes used in computing the credit are limited to \$300 per taxable year. "Rent constituting property taxes" means 30% of the gross rent actually paid during the taxable year.

3/ For renters, the tax-equivalent amount is considered as 10% of the actual rent paid during the tax year.

4/ Persons born before March 1, 1891, with an income not over \$3,000 are entitled to relief of the total amount of property taxes on their homestead up to a maximum of \$400.

NA--Data not available.

SOURCE: ACIR staff compilation from Commerce Clearing House data.

