Relieving the Burden of the Property Tax in Maine

Report of the Speaker's Select Committee on Property Tax Reform

November 1986

SPEAKER'S SELECT COMMITTEE ON PROPERTY TAX REFORM

FINAL REPORT

November 1986

House of Representatives
State House Augusta 04333
289-2866

Jack Cashman
District 79
135 Prentiss Street
Old Town, Maine 04468

November 24, 1986

Speaker John L. Martin
House of Representatives
Maine Legislature
Augusta, ME 04330

Dear John:

I have the pleasure of submitting to you the final report of the Speaker's Select Committee on Property Tax Reform.

The Committee has worked enthusiastically over the past two years to examine the property tax in Maine. It has held public hearings throughout the State, and it has met on numerous occasions in Augusta to explore the issues that have been raised. Its preliminary report on assessment practices was submitted to you last year and adopted by the Legislature, with minor changes.

The attached final report identifies the current role of the property tax in Maine. It recognizes that Maine municipalities are more reliant on the property tax than is true in any other state. Recent changes in both state and federal law can be expected to result in dramatic increases in that already over-burdened source of revenue.

The Committee recommends that the State take an active role in providing assistance to both municipalities and to property taxpayers in order to avoid the negative effects of placing the cost of state and federal reforms onto what is generally agreed to be a regressive tax. We believe that these changes are necessary to maintain a fair and equitable tax structure.

We have enjoyed our work on the Committee and we thank you for the opportunity to participate in this worthwhile study.

Sincerely,

Jack

Rep. John A. Cashman, Chair
Speaker's Select Committee on
Property Tax Reform

SPEAKER'S SELECT COMMITTEE ON
PROPERTY TAX REFORM

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SPEAKER'S SELECT COMMITTEE ON

PROPERTY TAX REFORM

Executive summary

Property taxes have been the primary source of municipal revenue in Maine since its beginning as a state. In more recent years other taxes have replaced the property tax as a source of state revenue; however, Maine municipalities continue to be more dependent on the property tax than is true of municipalities in any other state.

Over the last 15 years several studies of Maine's tax structure have recommended the the Legislature make changes to reduce municipal reliance on the property tax. Few of the major changes recommended have been adopted.

The property tax has been criticized almost universally because of its regressivity. A property tax which is high will also have an effect upon the use to which land will be put. Property taxes can also aggravate social disparities by causing wealthy landowners and businesses to migrate to low tax communities rather than remain in municipalities with high property tax rates resulting from higher social welfare costs.

In the nest several years, the property tax in Maine will be subjected to unprecedented pressures. Federal budget

reductions will have a major impact upon municipal budgets. Educational reform will require the expenditure of additional local funds in order to meet new state standards. Federal tax reform will make it more expensive for municipalities to borrow money.

It has been estimated that all of the increased costs to municipalities, if they are to meet state education mandates and maintain the current level of municipal services, will amount to as much as $80 million. This amount would result in an average increase in property taxes statewide of approximately 18-20%. This is a particularly serious result to a state like Maine that is so heavily reliant on the property tax, which has so many negative implications.

The Speaker's Select Committee believes that the State must take the lead in providing assistance to municipalities to meet the pressures in the nest five years. Therefore the Committee makes the following recommendations.

RECOMMENDATION 1. The Legislature should immediately increase the State share of education costs from the current effective rate of 58% to 60%.

RECOMMENDATION 2. The Committee recommends that the State share of education funding be increased to 65% by fiscal year 1991-92.

RECOMMENDATION 3. The Committee recommends that State-municipal revenue sharing be increased immediately to 7% of sales and income tax.

RECOMMENDATION 4. The Committee recommends that the Legislature study the experience of county budget committees and determine which method best addresses the burden of the county tax upon the municipal property tax.

RECOMMENDATION 5. The Committee recommends that municipalities be granted the option of assessing service charges on any classes of property currently exempt from property tax.

RECOMMENDATION 6. The Committee recommends that the Legislature enact a property tax circuitbreaker which would redistribute approximately $25,000,000 to low income taxpayers.

SPEAKER'S SELECT COMMITTEE

ON PROPERTY TAX REFORM

I. Background

Taxes on property date from the beginning of our nation and far beyond. Property was a primary measure of wealth in an agrarian society--the major means of income and source of investment.

Our system of taxation has become more sophisticated in order to respond to the needs of a more complex technological society.

The nineteenth century saw the common development of excise taxes based upon gross receipts or other measures for the privilege of engaging in particular activities. These were commonly imposed upon franchises or monopoly businesses, and many still survive.

In the twentieth century, sales taxes, then income taxes became popular as a source of state revenues. Service fees have been popular sources of revenue on the local level in some regions of the country. Some states have dedicated special taxes (for example, severance taxes) to payment of educational costs.

In Maine, the latest round of comprehensive discussion of the property tax occurred in the 1970's as part of a major attempt to evaluate and reform the state's overall tax policy. Three reports prepared by different groups between 1972 and 1976 recommended that the state decrease its reliance on the property tax. These included a report entitled State of Maine Government Finances, Relief and Reform 1973-75 submitted in December 1972 by ESCO Research to the State Planning Office at the request of Governor Kenneth Curtis. This report was followed in 1975 by a report prepared for Governor James Longley by the Governor's Tax Policy Committee headed by John Salisbury entitled An Idea Whose Time has Come: A Tax Policy for the State of Maine. The Salisbury report was followed in 1976 by a Legislative study entitled A Progress Report on Maine's State and Local Tax Structure.

These three reports made comprehensive recommendations for reform of Maine's tax structure. Some of the recommendations of these Committees have been adopted; however, major reform of the state's tax structure has yet to be accomplished.

All three reports recommended a greater state share of education costs even to the extent of total state assumption of those costs. Although those recommendations were not completely adopted, state support for education costs was increased in 1973 with the enactment of the uniform property tax. In addition to the goal of equalizing educational opportunity, the uniform property tax was aimed at reducing the burden on the property tax of financing public education and equalizing the tax burden on property owners in different school units. Although the uniform property tax was repealed, its replacement, the School Finance Act of 1978, continued those goals.

Although the state share of education costs was increased by the enactment of the uniform property tax, other major structural reforms of the state tax structure have not been accomplished. Some of the recommendations of the reports of the 1970's were enacted. The bank stock tax, the poll tax and the sales tax on business inventories have been eliminated. The income tax has been adjusted from time to time. A state lottery has been established. Revenue sources identified by those reports have been adopted, although usually not for the purposes identified in the reports. The 5% sales tax has been extended to include cigarettes; the real estate transfer tax and the insurance premium tax on domestic insurers have been increased; a 2% tax has been placed upon short term lodging. Some improvements have been made in assessment practices, such as the creation of a State Board of Property Tax Appeals, which was accomplished last year following the preliminary recommendations of this Committee.

A summary of the recommendations from the three previous study reports is included in Appendix B.

II. Property Tax

The expansion of tax mechanisms in this century has primarily been restricted to state and federal governments. Although in some regions, sub-state units have been given authority to seek other sources of income, in New England, local governments are almost totally dependent upon the property tax as a source of tax revenue. In fact, according to the U.S. Bureau of Census, Governmental Finances in 1983-84, municipalities in Maine (at 98.9 % of total revenue) were more dependent upon the property tax than municipalities in any other state. This has not changed much since 1915-16 when the percentage of municipal revenue derived from the property tax was 95.7%, the bulk of the remainder from poll tax. Hornell, O.C., Sources of Municipal Revenue in Maine, 1918. Although all New England states rank higher than other states (all over 97%), there are wide variations in dependence on the property tax outside New England with Oklahoma (8.9%), Alabama (17.0%), Missouri (18.3%) and Colorado (21.3%) at the low end. The national average is 51.2%.

The property tax as a source of revenue has been the subject of criticism for a long time. Traditionally, the property tax has been considered to be a regressive tax (that is, one having a disproportionate burden on persons of lower incomes than on persons with higher incomes). Numerous studies have shown that property taxes account for a much higher percentage of the income of low income persons than is true for high income persons. While this may be true for residential property, the situation with regard to nonresidential property presents other problems. For those properties, the burden of the property tax depends upon the ability of the property owner to pass the tax along either to customers through higher prices or to labor through lower wages for employees employed on the property. The property tax has a much greater impact upon industries with large investment in property. A capital intensive industry such as the paper industry is tremendously effected by high property tax rates. While taxes are not the only factor in determining business location, they are, none the less, a business expense that must be factored into the cost of a product. From testimony given to the Committee at its public hearings, it is obvious that industry in Maine considers the property tax to be the most burdensome tax they have to deal with in Maine. It is also a tax that, (unlike the corporate income tax) they have to pay whether or not they are profitable. So although property taxes do generally account for only a very small proportion of overall business costs, there can be little doubt that high property taxes can have a discouraging effect upon expanding or relocating business, especially businesses that are property intensive.

The property tax can also have an effect upon the uses to which land is put. In some areas of Maine, especially in scenic coastal communities, the value of land is increasing so rapidly that some long time residents are unable to pay their property taxes and must sell their property and move to new locations. The same is true in areas that are being seriously affected by development pressures. In some instances, traditional uses, such as farming and fishing, are being replaced by shopping malls and condominiums. It may not always be in the best interest of communities to have land use decisions determined by property taxes. Although provisions of Maine's Constitution and law permitting forest, farm and open space land to be valued on the basis of use rather than market value, do provide some protection for some traditional uses, many persons hesitate to have their land classified under those programs because of the requirements for inclusion and because of the penalties for withdrawal.

Property taxes are not only regressive; they can also have the effect of aggravating social disparities. A suburban community with a large number of high income family homes will have a relatively high municipal valuation. That community can meet its basic needs with a much lower tax rate than a community of the same size with many low income family homes. Yet the higher income families in the first community are better able to pay higher tax rates than the low income families in the second community. Communities with a large amount of tax-exempt property must have higher tax rates than similar communities with little exempt property. Yet in many instances, the primary beneficiaries of the tax exempt organization may live and pay property taxes in other communities. Similarly, a community with a large commercial industrial facility may have the benefit of the large valuation that such a facility adds to that community while most of the employees may live in other communities and require services there.

III. Maine property taxes in relation to other states

Property taxes in Maine are essentially the sole source of municipal revenue. As a result, the property tax in Maine, as a cost to the typical family, is quite high compared to the cost of that tax to families in other states. The Advisory Commission on Intergovernmental Relations has developed a standard for comparing the revenue systems of the states. It has developed a system of comparing an individual state's revenue experience against the average based upon the relationship of a state's tax base to the national average (tax capacity) and the relationship of a state's actual tax collections per capita to its tax capacity (tax effort). According to its most recent report, 1982 Tax Capacity of the Fifty States, (May, 1985), Maine has a property tax capacity which is 88.1% of the national average. Yet Maine's tax effort is at 122% of its capacity. In this regard, Maine ranked 15 out of the 50 states and the District of Columbia.

Other criteria exist for comparing Maine's property tax with other states. In amount of property taxes collected per capita Maine ranks 24. This ranking would indicate that although Maine municipalities depend overwhelmingly on the property tax as a source of income, they also do a good job compared to other states in keeping down local costs in order to reduce the tax burden on each individual. In amount of property tax per $100 of personal income, Maine ranks 14. This relatively high ranking results from the fact that personal income levels in Maine fall far below national levels.

IV. Sources of pressure on the property tax

In the next several years, the property tax in Maine will be subjected to unprecedented pressures. The primary reasons for that pressure are listed in this section.

A. Increasing the property tax burden

Several actions have occurred in recent years that will have a dramatic effect upon increasing the burden of the property tax on local taxpayers in Maine.

B. Federal budget reductions

In 1985, Congress made several changes in federal law which will have a major effect upon municipal budgets. The largest change was the elimination of the federal revenue sharing program. The action will result in the loss of $28.8 million to Maine municipalities in FY 1986-87.

Congress is now also requiring municipal governments to make payments for Medicare for all new employees and for others who request it. It is very difficult to assess the immediate impact of this change in the law because the requirement is limited to those employees hired after April 1, 1986 and those other employees who request it. It is impossible to determine how many employees are going to fall into one of those two categories. However, the ultimate effect of this change in federal law, based on the number of municipal employees in Maine today is estimated by the Maine Municipal Association at approximately $6,000,000.

In an effort to reduce the federal budget, reductions were made in fiscal year 1986-87 in numerous grant programs and some programs were eliminated. These grant programs assisted Maine communities to pay for various kinds of public improvements. Without federal assistance, municipalities will be required to absorb the full cost or go without certain important services. Estimates are difficult but could range in the vicinity of $20 million.

With federal budget projections indicating a deficit level for FY 87 exceeding Gramm-Rudman-Hollings targets, it seems likely that further federal reductions having a negative impact upon municipal revenues will be needed. Program freezes in human services programs also increase the demand for local welfare assistance and other services. Many of these cuts in federal spending do not result in the expense going away, but rather they result in the expense being borne by local government which in Maine means they will be borne by the property tax.

C. Education reform

In 1984, following state and national reports critical of the state of public education, the Maine Legislature began the process of enacting school reform legislation to increase minimum teacher salaries, provide for periodic testing and raise minimum graduation requirements. In order to help defer some of the costs of expanded educational effort, the state share of educational costs was increased from 54% to 55% and a block grant system has been established to reimburse municipalities for costs related to increased teacher salaries. The expiration of the block grant system in fiscal year 1988-89 will result in an effective increase in the state share of education costs to approximately 58%.

However, not all increased educational costs caused by recent reform legislation are being reimbursed by the state. A study is currently scheduled to report to the Commissioner of the Department of Educational and Cultural Services in the fall in an effort to determine the full impact upon municipalities of increased educational costs. A report by the Ad Hoc Funding Committee of the Maine School Superintendents Association and Maine School Management Staff estimates that increased costs will total approximately $18 million. That report has been criticized because it is based upon the estimates of programs recommended by school superintendents rather than funding levels actually approved by local school boards. Further criticisms maintain that some costs included in the report are based upon inflation rather than increased state mandates and some of the costs are no longer necessary because concerns relating to student-teacher ratios have been addressed by the Department. Low estimates of increased local costs are in the vicinity of $10 million. In an effort to gain a handle on this figure the Committee heard testimony in August of 1985 from the then Commissioner of Education Robert Boose. Commissioner Boose told the Committee that it would be his best estimate at that time that $14 million in additional State funds would be necessary to cover all of the costs associated with the Educational Reform Act. The study committee that will report to the current commissioner in the fall will certainly provide additional insight into this matter, but at this point all agree that more funds will be necessary if the State is to pay for what it has mandated.

D. Tax Reform

Several of the provisions of impending federal tax reform will have an effect on municipalities and the property tax. The proposed changes in municipal bonding will serve to make it more expensive for cities and towns to borrow money. This added expense in Maine will be paid out of the property tax.

Further, the provision that eliminates the Federal tax deductibility of State and local sales tax will have the effect of making the sales tax a less desirable source of state revenue because, without deductibility, it will not be possible to pass some of the cost along to the federal level. Reduced deductibility of mortgage interest and the elimination of tax inncentives for investment in real estate may result in slower increases in property values with the effect of reducing the natural growth of the local tax base that results from rising real estate prices. Slower increases in value will make it more difficult for local officials to keep mill rates from rising dramatically.

E. Conclusion

It has been estimated that all of the increased costs to municipalities, if they are to meet state education mandates and maintain the current level of municipal services, will amount to as much as $80 million. This amount would result in an average increase in property taxes statewide of approximately 18-20%. This is a particularly serious result to a state like Maine that is so heavily reliant on the property tax, which has so many negative implications.

V. State's Role

It is clear to this committee that because of the actions taken in recent years by both the State and Federal government that a very serious problem in Maine is getting a lot worse. The property tax in Maine has reached and surpassed its saturation point. Local officials who have been pushed to the brink already are now being pushed again. The State can either sit idly by and watch it happen or it can take the lead in helping to absorb these costs. To sit idly by and watch the local property taxes in Maine increase by up to 20% through no fault of municipal officials would be both a cruel and selfish policy for the State to follow.

Recommendations

The Committee makes the following recommendations.

RECOMMENDATION 1. The Legislature should immediately increase the State share of education costs from the current effective rate of 58% to 60%.

Maine's education finance law is somewhat complicated. Stated simplistically, the state law currently provides that the state will pay an aggregate 55% of basic education costs based on two year old costs updated for one year's inflation. Some costs are treated differently, such as the block grant program for increased minimum teacher salaries, special education, certain transportation costs and certain other costs. When the amount that the state provides to municipalities in block grants for teacher compensation are included in the formula in 1988-89, the actual state share total comes to approximately 58%.

One of the goals of the education finance law is to ensure that the burden of financing educational costs does not fall unfairly on communities with low property valuation. Therefore, the formula provides that each community will receive from the State a percentage of their funding effort. That percentage is determined by a comparison with the state average and the extent to which the community exceeds the mill rate established by the Legislature for the local share. As a result, some communities may receive no state aid for education; other communities may receive 80% of their costs.

The School Reform Act of 1984 imposed many additional requirements on local school systems which require the expenditure of added tax dollars. The State should be willing to pay for those added responsibilities. Former Commissioner of Educational and Cultural Services Robert Boose told this Committee that State funding of the additional requirements imposed on municipalities would require an increase of approximately 2% in the State share to 60 %.

> RECOMMENDATION 2: The committee recommends that the State share of education funding be increased to 65% by fiscal year 1991-92.

The cost of education is not truly a property related expense such as are fire and police protection. Yet school funding makes up the majority of cost on most property tax bills in Maine. Generally speaking, it can be said that the states that have significantly lower property tax rates than

Maine do not rely on the property tax to pay for education to the extent that Maine does. The Committee feels that local input into educational policy and financing should be continued in Maine in order to insure local control of the process. However, we also feel that a greater portion of expenses should be borne by the State in order to insure proper funding and ease the strain on property tax payers.

The current education finance formula is quite complicated. Although the aggregate state share may be specified in statute, the formula results in some municipalities receiving much larger shares; some receive much less. In addition some types of costs are reimbursed outside of the standard formula. The current formula is intended to equalize educational opportunity throughout the State, relieve the burden of school expenditures on the local tax base and even out the local tax burden across the State. The Legislature should study the extent to which the current formula meets those goals and determine the most appropriate use of the additional State funds that will be required to meet the 65% goal.

RECOMMENDATION 3: The Committee recommends that State-municipal revenue sharing be increased immediately to 7% of sales and income tax.

The state-municipal revenue sharing program was enacted in 1971. Currently 5.1% of all revenues from the state sales and income tax are paid to the Local Government Fund. The original percentage of revenues dedicated to revenue sharing was 4%. That percentage was increased to 4.75% beginning August 1, 1984 and 5.1% beginning July 1, 1985. The contents of the Fund are distributed monthly to municipalities in the state based upon population and relative tax effort. The total amount of distributions for fiscal year 1985-86 is estimated to be $36 million. Each percentage point increase adds approximately $7 million to the state-municipal revenue sharing program.

During the course of public hearings in 1985, this Committee was advised several times that an increase in municipal revenue sharing was the best way to relieve the burden on the property tax. On the other hand, municipal revenue sharing has been criticized by some as providing the means for municipal officials to fund additional programs rather than to reduce property taxes.

At this point cities and towns in Maine are losing $28.8 million in federal revenue sharing money. While much of this money may be able to be absorbed by municipalities, clearly a great deal of it will eventually take the form of property tax increases. The committee feels very strongly that the State should help cushion the blow of this federal cutback and absorb half of the dollar amount being cut. Therefore, we recommend an immediate increase in State revenue sharing to 7% of State sales and income tax revenue.

This recommendation is completely consistent with the Blaine House Conference recommendation of 1982 which called for an increase in State revenue sharing to 8%. The recommended move to 7% is not meant to preclude any future increases. It is recommended as an immediate step to help an immediate problem.

RECOMMENDATION 4: The Committee recommends that the Legislature study the experience of county budget committees and determine which method best addresses the burden of the county tax upon the municipal property tax.

Unlike many other areas of the country, in New England, county government has traditionally served only a minor role in the total structure of government. In Maine, county government, like municipalities, is almost completely reliant upon the property tax for the source of its funding. However, unlike municipalities, the officials elected to administer county government, the county commissioners, and the persons who are responsible for collecting the revenues necessary to fund it, municipal officials, have no say in the amount of tax which will be assessed. That decision is the responsibility of the Legislature. County budgets are presented to to the legislative delegation from that county. Once the budget has been approved by the delegation it must be enacted by the full Legislature. The budget then serves as the basis for the county tax which is assessed against the localities in the county based upon state valuation. The county tax is added to other municipal costs and collected as part of the local property tax. The local taxpayer is frequently not aware that part of his local property tax is actually the county tax determined by the Legislature. In 1985, total statewide property taxes were approximately $446 million. Of that amount $20 million represented county tax.

In recent years there have been bills presented in the Legislature to abolish county government and redistribute its functions to the State or to municipalities. In 1983, a bill was introduced to fund county government from the income tax rather than the property tax. Neither suggestion was successful.

In the past two years, a movement is spreading to bring more accountability to the determination of the county tax. In six counties, the Legislature has created county budget committees with varying degrees of responsibility for determining the county budget-tax. In Kennebec and Piscataquis Counties the budget committee is purely advisory to the county commissioners. In Cumberland and Waldo counties, the final decision on the county budget-tax will now be made on the county level rather than by the Legislature. In Aroostook and Androscoggin counties the Legislature must approve the county budget, but the law provides that the Legislature may only approve or refuse to approve the budget; it may not make changes in it. A chart comparing the six procedures is located in Appendix C.

This Committee has heard information that indicates that the budget committee process seems to be bringing more accountability to the budget process in Aroostook county. On the other hand, it has heard that the Cumberland County budget Committee has not worked to reduce the county tax. The Androscoggin County budget committee process was just enacted this year and the committee has not received any information with regard to the other three counties.

This Committee endorses the principle that budget and tax decisions ought to be made by the level of government that benefits from them. The resulting accountability will ensure that decisions are made with more attention to the desires of the people that will be responsible for paying the tax. The Committee recommends that the Legislature investigate the experience of county budget committees and determine which process is the most effective and establish a uniform county budget procedure which will reduce or remove the responsibility of the Legislature for determining county budgets and tax.

<u>RECOMMENDATION 5: The Committee recommends that municipalities be granted the option of assessing service charges on any classes of property currently exempt from property tax.</u>

The Committee investigated the possibility of permitting municipalities to make service charges to certain classifications of tax exempt properties. This option has been considered by the Legislature several times in the last several years. It would permit municipalities to make charges for services such as fire, police, snow removal, or waste disposal to certain classifications of tax exempt properties. Although there are some questions concerning the constitutionality of such a proposal, the Attorney General's Office has issued an opinion approving service charges as long as they are applied to all property within a classification and as long as they are reasonably related to the cost of providing the services.

The Committee recommends that legislation be enacted to establish a procedure by which municipalities may choose to charge classes of tax exempt property for services received from the municipality. The procedure will provide that if a municipalitiy wishes to make service charges, it must adopt those procedures by referendum. The referendum must also determine the classes of property against which charges will be made. The municipality should be free to choose to charge all classes of property, except federal property which would be prohibited by the federal constitution.

Permitting charges for services would help municipalities with large amounts of tax exempt property but would do little to assist smaller communities with little tax exempt property.

RECOMMENDATION 6. The Committee recommends that the Legislature enact a property tax circuitbreaker which would redistribute approximately $25,000,000 to low income taxpayers.

A property tax circuitbreaker is a program which is designed to protect households from excessive property taxes. It operates like an electrical circuitbreaker to cut off an overload when too much pressure is placed upon that source of revenue. The property tax is generally considered to be a regressive tax -- that is, a tax which consumes a larger proportion of the income of low income persons than it does of higher income persons. A property tax circuitbreaker relieves the regressivity of the tax by providing a credit or payment which is inversely proportional to a household's income. The Committee makes this recommendation in recognition that in addition to benefits being provided to municipalities, some relief ought to be provided directly to those who must pay the bill.

Circuit breakers, in one form or another, exist in ?? states. All place limits on eligibility based upon income although the cutoffs vary considerably. Many programs determine benefits based upon the amount of property tax paid or the proportion that property tax constitutes of a household's income. Circuit breaker programs in most states go into effect and grant relief from excess taxes when the property tax bill (or the equivalent for renters) exceeds a set percentage of income. Another approach is to grant tax relief equal to a percentage of the property tax bill, with the percentage being dependent upon the household income level. A simpler version which provides a benefit based solely upon household income has been adopted by the Committee because reliable information could not be obtained on the amount of property tax paid by households in various income groups. Therefore, the fiscal impact of the consideration of property taxes paid could not be determined with any degree of assurance.

Circuit breaker programs are often incorporated into state income tax programs with an opportunity for persons not filing income tax returns to apply separately. Provisions are usually also made for renters on the assumption that a proportion of rent paid is attributable to property taxes that must be paid by the landlord.

The circuitbreaker proposed by the Committee exhibits the following characteristics.

1. Because the purpose of the circuitbreaker is to alleviate the burden of high Maine property taxes on household living expenses, circuitbreaker benefits would be available to all eligible households maintaining a primary residence in Maine.

2. All low income households, with the exception of those residing in housing subsidized by HUD, MSHA, FmHA, and local housing authorities, are eligible for circuitbreaker

benefits. "Household" means a claimant and spouse and members of the household for whom the claimant under the circuitbreaker is entitled to claim an exemption as a dependent for the purposes of state income tax filing for the year in which relief is requested. In order to maintain simplicity, it is recommended that distinctions not be made based upon the number of persons in the household.

3. The committee recommends that in order for a household to be eligible for circuitbreaker benefits, the yearly gross income of that household cannot exceed $25,000.

4. The benefits provided by the circuitbreaker total approximately $25,000,000, the amount determined by the Committee as necessary for significant reform.

5. The circuitbreaker is to be administered as a refundable credit on state income tax returns. A separate form will be provided to enable persons who do not submit income tax returns to claim circuitbreaker benefits.

6. The Committee assumes that a proportion of rent is devoted to paying property taxes. Based on this assumption, it is recommended that renters be eligible for the same benefits as homeowners.

The circuitbreaker proposed by the Committee is slightly progressive, providing relief based upon the percentage of households within specified income groupings. It would provide benefits according to the following chart.

Proposed Circuitbreaker Benefits

Gross Income	Number of Households	Average Benefits	Total Benefits
$		$	$
0-2,500	8,582	132.00	1,132,824
2,500-4,999	21,190	127.00	2,691,130
5,000-7,499	25,481	122.00	3,108,682
7,500-9,999	25,441	117.00	2,976,592
10,000-12,499	24,581	113.00	2,777,653
12,500-14,999	27,067	109.00	2,950,303
15,000-17,499	25,907	105.00	2,720,235
17,500-19,999	21,736	101.00	2,195,336
20,000-22,999	22,739	97.00	2,205,683
22,500-24,999	21,230	94.00	1,995,620
Totals	223,954		$24,754,063

VI. The fiscal environment

The Committee recognizes that these recommendations require additional state revenues. It may well be that the additional revenue required will exceed normal revenue growth and a tax increase of some sort will be necessary to fund these recommendations.

The Committee investigated the desirability of a one cent increase in the sales tax. This increase would raise approximately $70 million in additional revenue. There was little initial opposition to this concept as long as the increased revenues were used for tax reform (that is, to reduce the property tax) and not to fund additional state programs. Although the sales tax is frequently criticized as being regressive, Maine's sales tax, with its exemptions for food, medicine, heating oil, and a portion of electricity is considered to be less regressive than most. In studies of tax popularity, an increase in sales tax is generally considered preferable by members of the public than increases in any other tax, including the income tax. However, under the federal tax reform proposal adopted by the House-Senate Conference Committee in August 1986, state sales tax would no longer be deductible for purpose of the federal income tax. If enacted, this provision would serve as a deterrent to choosing the sales tax as the vehicle onto which to shift the burden of making up the cost of property tax relief. The state would be wiser to shift the burden to a deductible tax in order to share some of the cost with the federal government.

VII. Conclusion

As a result of its investigations, it has become apparent to the Committee the property tax in Maine is a problem which seriously needs to be addressed. Maine municipalities are more dependent upon the property tax than municipalities in any other state. This dependence upon the property tax results in tax rates which discourage property intensive business development. The high rate of the property tax affects land use decisions and is forcing some residents out of life long homes because development pressure is increasing property taxes beyond affordable limits.

The Committee believes that the property tax has reached the saturation point as a source of revenue. Although some reductions in municipal spending may be possible, they will certainly be overtaken by the increasing demands of state mandates and federal cutbacks. It is time for the state to take the leadership role of ensuring adequate municipal revenue to meet municipal needs without undue negative effects upon business or the disheartening burden upon low income families.The state should ensure that revenue to meet costs of educational reform are provided by the state. Efforts should be made to reduce the impact of federal budget reductions upon municipal services.

Because of the uncertainty related to the possibility of federal tax reform, the Committee is unable to make a specific recommendation relating to the method for accomplishing its recommendations.

This Committee recommends that the 113th Legislature carefully consider all available alternatives for financing property tax reform and make the objectives stated in this report a matter of high priority. Only by the State taking the lead in this area can we accomplish the goal of property tax stability. The Legislature must evaluate the impact of changes on the federal level, which should be clearer by next January, and determine which method best addresses the problems identified in this report and most fairly apportions the cost of providing essential services to the citizens of the State of Maine.

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APPENDIX A

VOTES ON RECOMMENDATIONS

MEMBER	RECOMMENDATION # 1	2	3	4	5	6
Austin	Y	Y	Y	Y	Y	Y
Barker	Y	Y	Y	Y	Y	Y
Butts	O	O	O	O	O	O
Cashman	Y	Y	Y	Y	N	Y
DiPietro	Y	Y	Y	Y	Y	Y
Emerson	Y	Y	Y	Y	Y	Y
Garland	Y	Y	Y	Y	N	Y
Grady	Y	Y	Y	Y	Y	Y
Ingraham	Y	Y	Y	Y	Y	Y
McLaughlin	Y	Y	Y	Y	Y	A
Nadeau	Y	Y	Y	Y	Y	Y
Osborne	Y	Y	Y	Y	N	Y
St. Peter	Y	Y	Y	Y	Y	Y
Twitchell	Y	Y	N	Y	N	Y
Wood	Y	A	Y	Y	Y	Y

KEY:

Y - Yes
N - No
A - Abstained
O - Absent and unrecorded

SUMMARY OF 1970's TAX REFORM PROPOSALS

I. Tax Reform Proposals for the State of Maine

Compiled and submitted by ESCO Research in 1972, this study presented conclusions and recommendations for tax reforms and revenue proposals for the State of Maine 1973-75 biennium

RECOMMENDATIONS

1. Provide all basic operating funds for public schools, grades kindergarten through 12 in order to make educational opportunities more equivalent in all sections of the state.

2. Assume all costs of transporting elementary and secondary pupils to and from school to facilitate an equality in accessibility to education in all sections of the state.

3. Provide tuition credits to parents who are residents of Maine who have children in private schools to allow savings to the state and local governments by not requiring the state to provide public education.

4. Remove personal property tax from certain classifications and reimburse communities for their resulting loss.

5. Eliminate bank stock tax. Because of increase in state-local revenue sharing funds, local municipalities should not be reimbursed.

6. Machinery and industrial equipment used in production of tangible goods and for research and development should be exempted from the sales and use tax, in order to encourage development of industry.

7. Provide a cash subsidy to tenants who do not own a home or principal place of residence.

8. Eliminate the poll tax, which is currently discriminatory, excluding women and males under 18 or over 70.

9. Reintroduce and enact the Morrill Bill, which intends to change Maine's income tax law to more closely conform with the federal income tax law.

RECOMMENDATIONS FOR FINANCING THE TAX REFORM

1. Assess each municipality in Maine a uniform state property tax based on state valuation of real and personal property.

2. In lieu of the personal property tax, increase the corporate income tax from 4 percent to 6 percent with an additional 4 percent surtax on corporate earnings over $25,000.

3. Increase the personal income tax rate with a rate ranging from 2-12 percent.

4. Increase revenue from sales and use tax by broadening the base or increasing the rate by:

    a. broadening base of sales tax to include services
    b. broadening base of sales tax to include food with an income tax rebate
    c. increase sales tax rate on current base

RECOMMENDED NON-REVENUE REFORMS FOR STATE GOVERNMENT

1. Create a separate property tax bureau within the Department of Finance and Administration to replace the existing Property Tax Division of the Bureau of Taxation.

2. Establish a State Board of Property Tax Appeals.

3. Develop an in-house task force to understand, modify, and implement the land use tax system that is being designed and developed in Vermont.

4. Require municipalities with school populations of less than 2,000 students to consolidate their school systems in school administrative districts wherever geographically possible.

5. Establish a Council on Quality in Education, in order to receive proposals for innovative public school programs.

6. Establish a new position of Coordinator of Federal Funds within the Department of Finance and Administration.

7. Employ a State Financial Planner to provide expert assistance to various tax committees and engage in ongoing revenue research.

8. Assess effluent charges on industries which continue to pollute environment without taking proper control measures.

9. Establish a Legislative Research Staff.

SOME OTHER ALTERNATIVE WAYS OF INCREASING STATE REVENUES

1. The sales tax should be broadened to add one or more new categories or the rate increased on a specific category:

   a. sales tax on automobile trade-in allowance
   b. sales tax on barber and beauty shop services
   c. sales tax on laundry and dry cleaning services
   d. sales tax on admission to commercial amusements, etc.
   e. sales tax on oil used as domestic fuel
   f. sales tax increase of 2 percent on meals and lodging

2. Establish a Maine state lottery

3. Miscellaneous possible sources of added state or local revenues..

   a. increase of real estate transfer tax to 1 percent
   b. increase in the premium receipts tax in domestic insurance companies to 2 percent
   c. increase on the premium receipts tax on out-of-state insurance companies to 3 percent
   d. institution of a gross receipts tax on the investment income of domestic insurance companies
   e. increase of 2 cents in excise tax on cigarettes
   f. institution of a head tax on all residents, aged 18-64 to replace the poll tax
   g. increase in highway fund deducated revenues by increasing automobile registration fees by $5
   h. increase in highway fund dedicated revenues by increasing the motor fuel tax by one cent per gallon

4. Other revenue considerations

   a. consideration of the principle of increasing charges to users of specialized state services
   b. consideration of the pro's and con's of bonding as
a source of state revenue

II. Tax Policy Directions for the State of Maine (1975)

This study was completed in 1975 by the Governor's Tax Policy Committee and was organized into five separate areas:

1. Fundamental reforms - long range goals of this particular study.

2. Financing fundamental reforms - an increase on total state taxes is not recommended, but rather a shifting of burdens in present tax structure.

3. Interim reforms - necessary only if fundamental reforms are not attainable in near future

4. Financing interim reforms - same as financing fundamental reforms

5. Reforms in administration - will result in greater administrative efficiency and will aid in elimination of unfair tax breaks.

RECOMMENDED FUNDAMENTAL REFORMS

1. Restructure property taxes - remove cost of education and welfare from property taxes and shift burden of these expenses to other broad-based taxes.

2. Only residents should be exempted from paying for education and welfare through the property tax.

3. The exemption from taxation of business inventories should be repealed. Improved information on inventory values should be provided to local assessors by the state.

4. Make available to municipalities a local, optional income tax in order to improve educational quality.

5. Shift a large percentage of the cost of education and welfare from the property tax to the personal income tax.

6. Incorporate into the state personal income tax the following federal provisions:

    a. head of household schedule
    b. standard deductions
    c. retirement income credit

7. Expand the sales tax base to include most tangible goods and services

8. Institute an income tax credit which will return to each Maine citizen the amount reflective of a minimum consumption level.

FINANCING FUNDAMENTAL REFORMS

1. Increase the personal income tax while maintaining or slightly improving the present vertical progressivity of the tax in the upper income brackets.

2. Increase the corporate income tax to assume 5% of shifted burden caused by reduction in property taxes.

3. Expand sales tax base to include most tangible goods and services with credit instituted.

4. Transfer to the municipalities the cost of some property related services currently provide by the state.

5. Tax business inventories to eliminate funds needing to be raised under 30 M.R.S.A. §5056 to reimburse municipalities for lost revenues.

6. Increase current real estate transfer tax formula.

7. Raise tax on domestic insurance companies to 2% of premiums.

INTERIM STRUCTURAL REFORMS

1. Adopt a general property tax circuit breaker with a $10 million expenditure limit.

2. Repeal reimbursement method of loss of inventory taxes and distribute equivalent amount to communities through state revenue sharing formula.

3. Income tax equity should be improved - the Federal IRS provisions should be enacted as soon as possible:

   - head of household schedule
   - standard (includes low income allowance) deductions
   - retirement income credit

4. Until fundamental reform to sales taxes, sales tax base should still be expanded.

FINANCING INTERIM REFORMS

Preferred Plan: Fund the total amount from an increase in the income tax

First Alternative: Fund a portion of the reform from the income tax and the remainder being taken from an expansion of the sales tax base.

Second Alternative: Fund by tax increase and imposition of service levy on inventories

ADMINISTRATION REFORMS

1. As a fundamental change, farm land, open space, and "tree growth" classifications based upon current use valuation should be eliminated in the future.

2. The executive or legislative branch should carry out further research into the tree growth formula, specifically as it relates to land values, stumpage and growth rate factors.

3. Until they are repealed, eliminate unfair tax breaks from farm land, open space and "tree growth" classifications.

4. The legislative body in each municipality should be given the option of levying an in lieu assessment that would reflect cost of services.

5. The state should pay municipalities for services provided to state owned property - an appropriation level should be determined for reimbursement.

6. The current inheritance and estate taxes should be repealed and replaced by a single estate tax based upon a percentage of the federal taxable estate.

7. The Bureau of Taxation should collect tax on income made on sale of real estate by non-residents at the point of sale.

8. The "piggyback" method of tax collection should not be adopted as a more efficient manner of collecting state income tax.

9. No current action should be taken with respect to revision of Maine income taxation affecting tax-shelter investments.

10. Adjust the state tax rate and tree growth formula so that the taxes in the unorganized territory properly reflect services provided it and reflect revenues comparable to what the uniform education tax would yield.

III. A Progress Report on Maine's State and Local Tax Structure

This report was submitted in 1976 by the Joint Select Committee on State Tax Policy. The recommendations of this report do not seek to raise the total tax burden of the state. Rather, they shift the burdens within the state-local tax structure from those most in need of relief to those better able to pay.

COUNTY BUDGET COMMITTEE COMPARISON

	Membership	Budget Authority	Basis for County Tax
1. Androscoggin	3 persons (2 must not be municipal officials) from each commissioner district chosen by municipal officials weighted by population.	1. Review budget submitted by county commissioners. 2. Adopt final budget subject to Legislative veto.	Budget adopted by budget committee when approved by Legislature.
2. Aroostook	3 residents of each County Commissioner District chosen by municipal officials, weighted by population. 1 resident of unorganized territory chosen by county commissioners.	1. Review budget submitted by county commissioners. 2. Adopt final budget subject to Legislative veto.	Budget adopted by budget committee when approved by Legislature.
3. Cumberland	3 municipal officers from each Commissioner District chosen by municipal officers at caucus.	1. Review budget submitted by county commissioners. 2. Make recommendation for changes to county commissioners.	Budget approved by majority county commissioner.
4. Kennebec	3 members (municipal officers?) from each commissioner district chosen by county commissioners.	1. Review budget submitted by county commissioners. 2. Make recommendations for changes to county commissioners.	Budget enacted by the Legislature.
5. Piscataquis	3 members from each commissioner district (one municipal official, one general public) appointed by the county commissioners. One public member must be from unorganized territory.	1. Review budget submitted by county commissioners. 2. Make recommendations for changes to county commissioners.	Budget enacted by the Legislature
6. Waldo	3 municipal officers from each commissioner district chosen by municipal officers, weighted by population.	1. Review budget submitted by county commissioners. 2. Adopt final budget.	Budget adopted by budget committee.

RECOMMENDATIONS:

1. The uniform property tax should not be repealed.

    a. in combination with the income and sales taxes, UPT more accurately reflects each person's ability to pay.
    b. UPT only raises funds for education - it does not determine how much money each town receives from the state.
    c. UPT is tax that is collected by each town, with revenues belonging to state's general fund.
    d. UPT is more equitable way of taxing

2. Repeal of property tax in inventories should be continued and reimbursement made through state revenue sharing formula.

3. A general property tax circuit breaker should be enacted. If not, the elderly tax relief formula must be revised.

4. Improvements should be made in errors in the state valuation procedures - state assessors should assist local assessors where necessary.

5. Additional revenues from increase in value of Maine property should be returned to benefit the most in need.

6. Reforms to personal income tax:

    a. head of household schedule should be adopted
    b. state retirement credit should be adopted
    c. income averaging formula should be adopted

7. Current income tax schedule should be investigated to correctly determine each person's ability to pay.

8. Reforms to sales tax

    a. sales tax should not be imposed on residential water, gas, or electricity.
    b. selective taxation of services can improve progressivity of sales tax.
    c. sales tax should be a levy only on personal consumption. Sales tax exemption for new manufactuuring machinery/equipment should be expanded to fishing and agriculture.

9. Financing the omnibus tax reform bill.

a. real property transfer tax should be increased.
b. sales tax base should be expanded to include amusements
c. life insurance proceeds of over $50,000 should be included in taxable estate
d. 5% tax should be applied to cigarettes
e. a percent of the federal minimum tax on loophole or tax shelter income should be collected
f. federal revenue sharing funds should be utilized
g. a minimum tax should be imposed on all corporations
h. part of new revenues from UPT should be returned through property tax circuit breaker

10. Areas for Further Study

a. Tree growth tax and farm and open space tax should be evaluated to determine burdens they impose
b. current state-revenue sharing formula could be improved to better determine need
c. fundamental reform of state sales tax should be pursued
d. resolve problem of taxing unorganized territory at same property tax rate as organized areas

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