Maine Property Taxes: Does the Circuit Breaker Relieve the Burden?

Maine Center for Economic Policy

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MECEP

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Executive Summary

The aim of this study is to better understand the burden of property taxes on Maine resident homeowners – both before and after their refunds through the Maine Property Tax and Rent Refund program – known as the "circuit breaker."

There is wide variability in gross property tax burdens across households in Maine. About a third of Maine homeowners pay less than 3% of their income in property taxes; about a third pay between 3% and 6% of their income; and a third pay more than 6%. Some pay much more than 6%. The study finds that the circuit breaker has a very significant impact on those households in Maine with the highest burden of property taxes – more than 6% of income. The potential effectiveness of the circuit breaker in reducing property tax burdens is enhanced substantially by the LD1 reforms enacted in 2005.

With no circuit breaker refunds, 33% of Maine resident homeowners pay more than 6% of their income in property taxes. By taking full advantage of the reformed circuit breaker in LD1, the percentage of households with a net property tax burden over 6% of income is reduced from 33% to 11%.

If all households eligible for circuit breaker benefits applied for them:

- The number of households with a property tax burden over 6% of their income would drop from 125,000 to 40,000.
- The number of households with a property tax burden over 10% of income would drop from 66,000 to 18,000.
- The number of households with an extreme property tax burden over 20% of their income would drop from 25,000 to 6000.

While the 2005 reforms contained significant enhancements to the program, further expansions are possible. For example, one could raise the maximum refund to a level higher than $2000 and/or raise the amount of property tax that is eligible for circuit breaker reimbursement. Either reform would extend the "6% tax cap" that is implicit in the benefit formula to a still greater number of Maine households.

Introduction

Over the past several years, widespread attention has been directed to the burden of property taxes in Maine. It has led to calls for legislative action, citizen referenda, consideration of tax and spending caps, and broader discussions of tax fairness and tax reform. The burden of property taxes inspired the appointment of a special legislative panel in late-2004 and the highly publicized passage of LD1 as the first order of business in Maine's 2005 legislative session. Among LD1's provisions are spending growth benchmarks at all levels of government, an increasing state share of K-12 school funding, and increases in the homestead exemption and circuit breaker programs offered to Maine resident homeowners. While the full impact of LD1 will be experienced over time, three recent studies have analyzed its effect on property taxes in the first year. These reports show modest progress over the past year in reducing the average burden of property taxes among Maine taxpayers.[1]

In this study, we focus less on the average property tax burden in Maine and more on its distribution across the population of Maine residents. We draw attention to the segment of Maine's resident population whose property tax burden is above the average and, in some cases, far above average. Most of these high-burden households are eligible for property tax refunds through the state's "circuit breaker" program, which was enhanced as part of the LD1 reforms. Our aim in this study is to better understand the burden of property taxes on Maine resident homeowners – both before and after their circuit breaker refunds.

The study is divided into five sections. Section I contains background information about the property tax in Maine and why property taxes have increased for many Maine homeowners. Section I also estimates the distribution of gross property tax burdens across Maine households, highlighting the wide variation in tax burden across the population and its relationship to household income and geography. Section II discusses property tax relief measures, focusing most extensively on the circuit breaker program, and its enhancement in LD1. Section III estimates the impact of the circuit breaker on net property tax burdens of Maine residents. Section IV describes those households that still have high net property tax burdens, even after accounting for the circuit breaker refunds they are eligible to receive. Section V is a review and discussion of the findings.

I. Property Taxes in Maine

In fiscal year 2005, about $1.7 billion was collected in property taxes in Maine. This compares with about $1.4 billion from state income taxes and about $1 billion from sales taxes. Property taxes are collected locally, and are used to support local public schools, municipal services, such as road maintenance, police and fire protection, and county services. Close to half of income and sales tax revenues, while collected at the state level, are also transferred to municipalities as the state's share of education and municipal costs. As spending on education and municipal services has increased over time, both the state's contribution to support these services and the amount of property tax collections have also increased.

The Uneven Out-of-Pocket Burden

Property taxes differ from most other forms of taxation, because they are imposed on an asset value, rather than on a payment stream. Income and sales taxes are collected when people are receiving or spending money, and thus reflect to some degree the cash resources available to the taxpayer when they are paying the tax. Property taxes, on the other hand, are based on the gross value of the property, regardless of income, and regardless of the accessibility of financial resources to pay the tax. As a result, property taxes may represent a small, moderate, large or very large fraction of income, depending on the circumstances of the individual homeowner. The wide variability in tax burdens across households, and the very high burden among some households, generates more intensive criticism of property taxes, compared with income and sales taxes, and raises legitimate questions of tax fairness.

There are many reasons individual homeowners may face a high burden of property taxes. Much of southern and coastal Maine, for example, has experienced property tax increases that result from rapidly rising property valuations. Abrupt changes in the distribution of property taxes often accompany municipal revaluations, when the assessed value of properties is updated to reflect current market values. In other parts of Maine, the closing of a mill, or the outsourcing of jobs may result in high property tax burdens, not because of rising property values, but because of declining incomes, high unemployment, or the loss of value from business property. In more densely populated service center communities, higher property tax rates may result from the provision of regional services for a population that extends beyond their municipal borders.

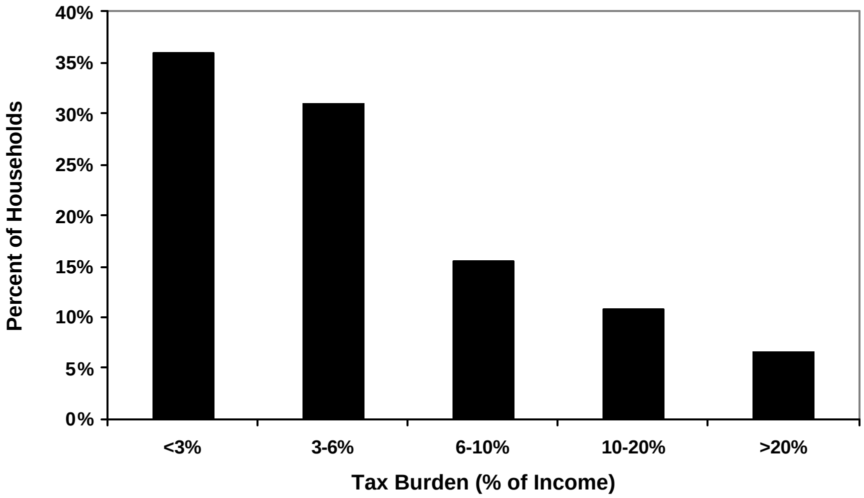
Each of these circumstances contributes to the overall burden of property taxes in Maine, and to very high property tax burdens for many resident homeowners.

Individual homeowners may have a high property tax burden for several reasons. They may have experienced a job loss and consequent income reduction. Their property may have been revalued. Their local property taxes may have risen due to being in a service center community or from the generally increasing cost of education and municipal services.

An initial goal of this study is to analyze gross property tax burdens across Maine's population. How extreme is the variation in property tax burdens? How many households have extremely high property tax burdens? And how does the burden vary by household income and geography?

We begin by looking at the burden of property taxes across the population as a whole. While the median household in Maine pays about 4% of their income in property taxes, the variability across households is considerable. Figure 1 illustrates this variability, using results from an estimation model developed by Maine Revenue Services, and incorporating data on both property tax collections and income levels across Maine's population.[2] The analysis includes Maine resident homeowners only; and the property tax burden estimates are based on their primary residence only. Renters are not included in the calculations; nor are the property taxes paid on second homes or other non-homestead

Figure 1
Gross Property Tax Burden as Percent of Income

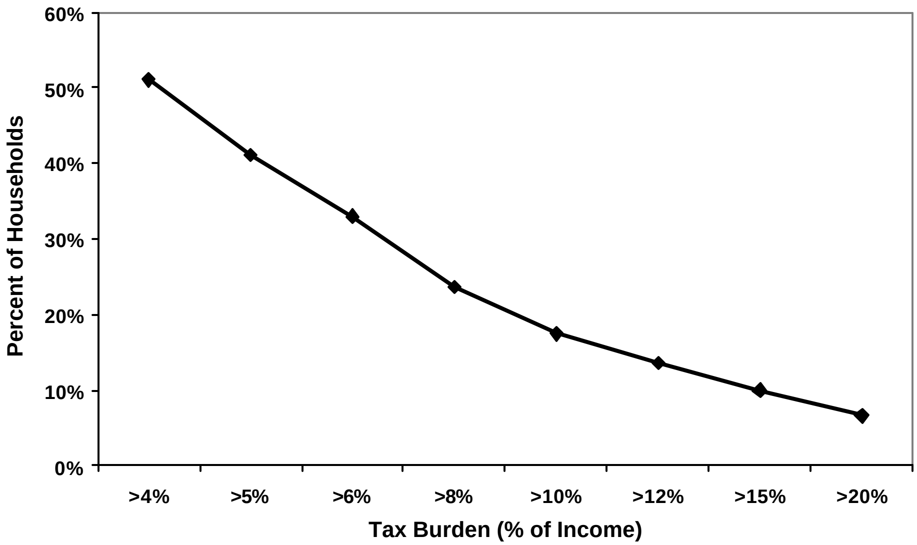


properties. We find that roughly a third of residents pay less than 3% of their income in property taxes (before any refunds); roughly a third pay between 3% and 6% of their income; and roughly a third pay more than 6%.

This study focuses most intensively on the latter category – the one-third of property taxpayers with the highest burden. The 6% threshold is an important one in Maine, because our circuit breaker program (discussed in more detail in Section II below) is structured to bring down the burden of taxes for many eligible households to a level that is no more than 6% of income.

The variability in property tax burden within this high-tax group is at least as dramatic as it is for the population as a whole. There are, for example, 7% of homeowners in Maine – about 25,000 households – whose property taxes amount to more than 20% of their income. Figure 2 illustrates the same data another way, documenting the percentage of households with a property tax burden that exceeds various levels. Both figures highlight the dramatic variation in property tax burdens across households in Maine and the substantial number of homeowners for whom the out-of-pocket burden is extremely large.

Figure 2
Distribution of Gross Property Tax Burden

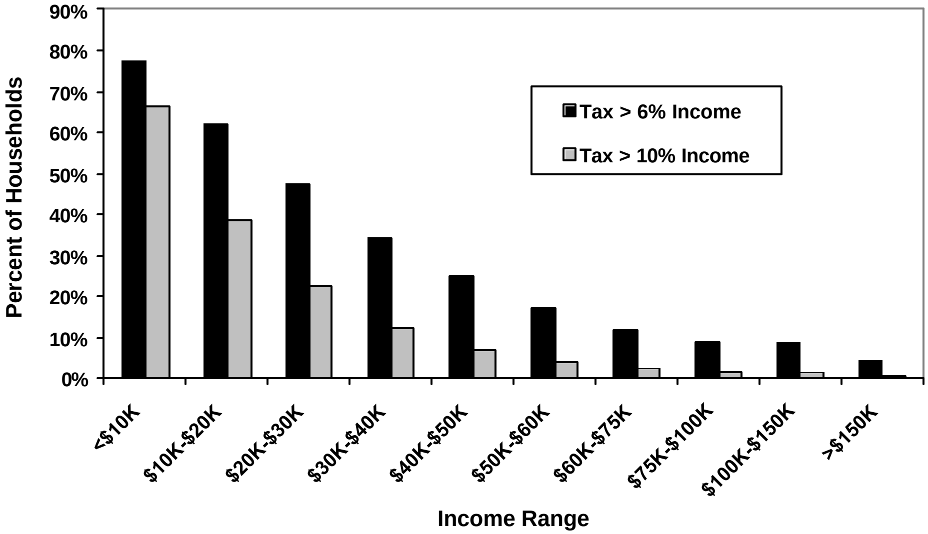


The variation in property tax burdens across the population is an important consideration in evaluating prospective property tax reforms. A fundamental policy question at the state level is how to allocate state resources among programs that broadly reduce property taxes for all taxpayers and how to target relief to those with greater need.

Property Taxes and Income

The variation across households in gross property tax burden is even more dramatic when comparing homeowners with different levels of income. Many more low-income households have a high burden of property taxes, compared with higher income households. The property tax is generally considered a regressive tax for this reason. Figure 3 compares the percentage of homeowners with a high property tax burden across various income ranges.

Figure 3
High Tax Burden Households by Income



More than half (about 54%) of households with income below $40,000 pay more than 6% of their income in property taxes. This is compared with 9% of households with incomes above $60,000 who pay more than 6% of their income in property taxes. About one in three of the lower income households (those with incomes below $40,000) pay more than 10% of their income in property taxes. Less than one in fifty of the higher income households (those with incomes over $60,000) pay more than 10% of their income in property taxes. Thus the overall burden of property taxes is highly skewed by income.

Figure 4
Distribution of Gross Tax Burden by Income

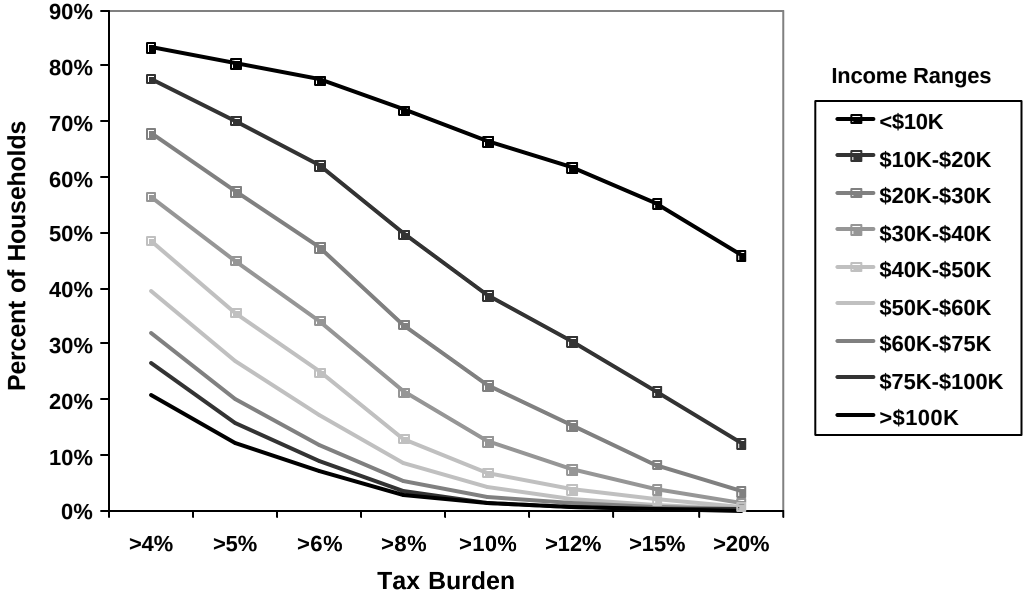
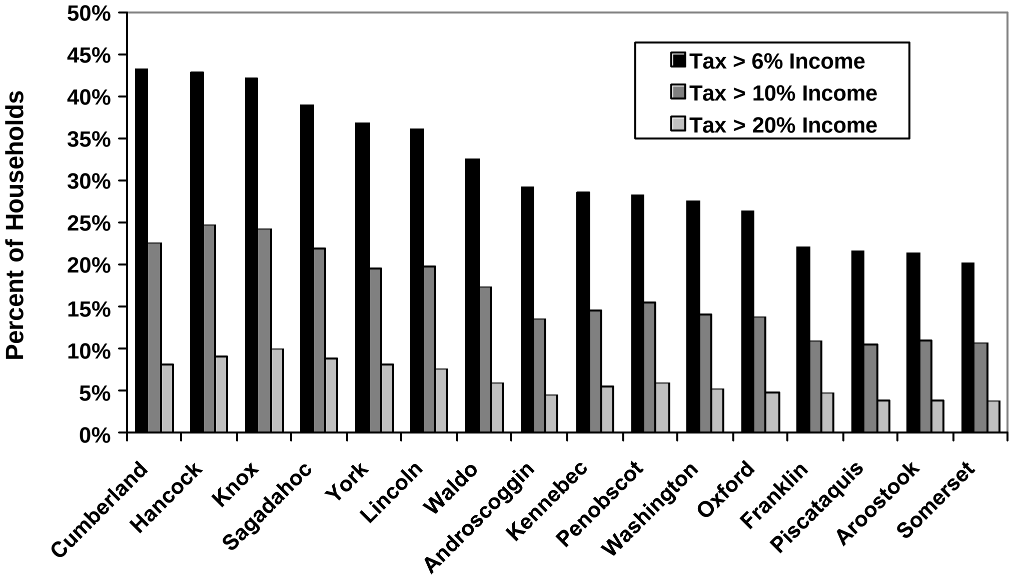


Figure 4 contains additional detail on property tax burden by income, highlighting again the strong relationship between income and property tax burdens. The estimates also provide empirical support for the concern that some Mainers are "being taxed out of their homes." Nearly all of the 25,000 households with a gross property tax burden in excess of 20% of their income – also have incomes below $30,000. Fewer than 3000 of these households have incomes over $20,000.

Property Taxes and Geography

The case is sometimes made that the property tax "problem" is concentrated primarily in certain geographic regions of the state – most notably along the coast. While this is certainly true to some extent, high tax burdens for significant numbers of households are found throughout the state's geography. Figure 5 compares the burden of the property tax across each of Maine's counties.

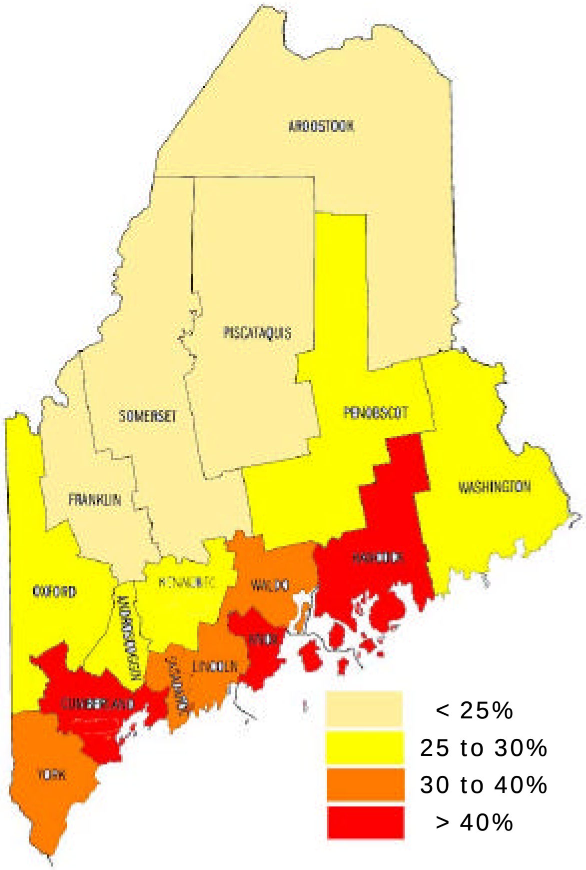
Figure 5
High Tax Burden Households by County



There is clearly variation in the number of households with a high gross burden of the property tax from one county to another. Cumberland, Hancock and Knox counties, for example, have about double the concentration of households with a high gross burden of the property tax, relative to Franklin, Piscataquis, Aroostook and Somerset counties. More surprising, however, is the large numbers of residents with a high burden of the property tax – in every county. In every county, at least 20% of households are paying more than 6% of their income in gross property taxes. And in every county, at least 10% of households are paying more than 10% of their income in property taxes. This suggests less geographic concentration of property tax burdens than is commonly assumed.

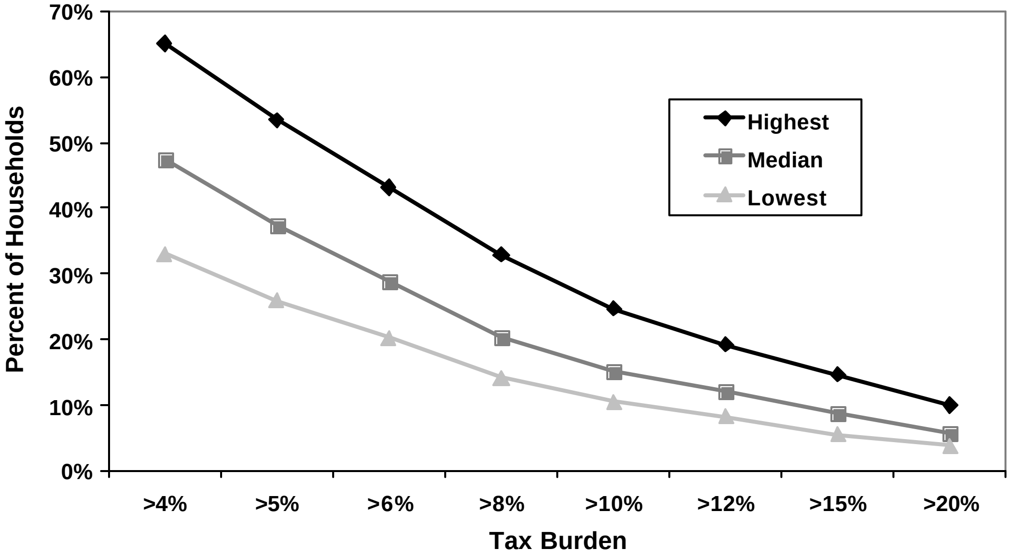
Figure 6 shows the geographic location of counties with lower and higher concentrations of high tax burden households. As expected, it shows clearly the larger concentration of high tax burden households in the southern coastal counties.

Figure 6
Percent of Households with Property Tax Burden
Exceeding 6% of Income



Finally, Figure 7 contains much the same information, but highlights the range across counties in the number of households with a gross tax burden exceeding certain levels. The lower line represents the county with the lowest percentage of households in each tax burden category. The middle line represents the median county. The upper line represents the county with the highest percentage of high tax burden households at each threshold. Figure 7 illustrates again that there are roughly double the proportion of high tax burden households in the highest burden counties as compared with the lowest burden counties.

Figure 7
Concentration of High Tax Burden Households:
Variation Across Counties



II. Property Tax Relief and the Circuit Breaker Program

A diversity of policy tools has been used in Maine to contain the burden of property taxes. Some of these measures provide relief broadly across all taxpayers; some target relief to certain categories of property (such as business equipment, or working waterfront, or homestead property); and some target relief based on need.

The MMA referendum passed in June 2004, when combined with the education spending benchmarks established in LD1, is an example of broad property tax relief. By providing more state resources for education, the balance of funding required from the property tax declines. In implementing the MMA referendum, the state increased its allocation to municipalities for K-12 education by nearly $100 million in FY2006 and committed to additional increases each year through FY2009. This type of broad property tax relief reduces the burden for all Maine taxpayers, commercial and residential, in-state property owners and out-of-state property owners, high tax burden households and low tax burden households.

The homestead exemption and the business equipment tax rebate program (more commonly known as BETR) are examples of targeted relief to certain categories of property. The current homestead exemption in Maine excludes from taxation the first $13,000 of value in the primary home of all Maine residents. It provides targeted relief for homestead property only. The Maine BETR program reimburses businesses for property taxes paid on certain categories of business equipment during the first 12-years that the equipment is in place. The November 2005 working waterfront referendum will provide targeted relief to property defined as working waterfront. In each of these programs, a class of property taxpayers is identified, and relief is targeted only to those taxpayers who meet the property eligibility criteria defined by the program.

Finally, there are programs that target property tax relief based on need. The circuit breaker program, also known in Maine as the Property Tax and Rent Refund program, is an example of need-based property tax relief. The circuit breaker program provides property tax refunds only to those taxpayers with the highest burden of property taxes. Thus it is the one policy tool in Maine that focuses explicitly on the variability in property tax burdens across households. For many households in Maine, it creates the equivalent of a 6% of income cap on property taxes. Analyzing the impact of the circuit breaker on *net* property tax burdens in Maine is the second core goal of this study.

How Circuit Breakers Work

Many states have implemented programs that provide property tax refunds to those households who face a particularly large burden of property taxes. The term "circuit breaker" is used because the refunds act much like an electrical circuit breaker, providing a relief switch for taxpayers whose burden of property taxes reaches a pre-defined circuit breaker threshold.

This simplest version of a property tax circuit breaker would refund back to taxpayers 100% of property taxes paid above some fixed percentage of income, such as 5% or 6% or 8%. Such a program would serve as a pure tax cap (sometimes referred to in Maine as a "homestead tax cap"). It would assure that no resident homeowner pays more of their income in property taxes than the limit specified in the program. The simple version of the circuit breaker is appealing – in large part because of its simplicity. Nobody would end up with a net tax bill above the specified threshold.

Consider, for example, a retired couple with a household income of $30,000, living in a home that has appreciated for 40 or 50 years, and is now worth $200,000. In a community with a property tax mil rate of 17 mills, the gross taxes on their home are $3400 annually. Now apply a circuit breaker that limits taxes to no more than 6% of income. Six percent of their income is $1800. The circuit breaker program would provide a property tax refund of $1600, so that their *net* property tax obligation would be capped at 6% of their income. Their new neighbors, on the other hand, a two-income family earning $70,000, would pay the full $3400 property tax on their identical home, because their gross tax bill is still below the 6% circuit breaker threshold.

Despite their simplistic appeal, simple circuit breakers are controversial, because they can result in very large refunds to otherwise wealthy households.[3] More complicated circuit breakers, including the circuit breaker used in Maine, limit the refunds in one of various ways:

- Limit the maximum refund amount.
- Limit the income eligibility of the program.
- Limit the value of the property, or the level of the tax that is eligible for a refund.
- Use a reimbursement rate that is less than 100%.

Each of these limitations is incorporated in some way in Maine's circuit breaker program.

According to the National Conference of State Legislatures, 31 states had some form of circuit breaker program for homeowners in 2002.[4] In Maine, a major expansion of the circuit breaker program was implemented in 2005 as part of the LD1 package. Both the prior program and the enhanced program are described here.

The Maine Circuit Breaker – Before and After LD1

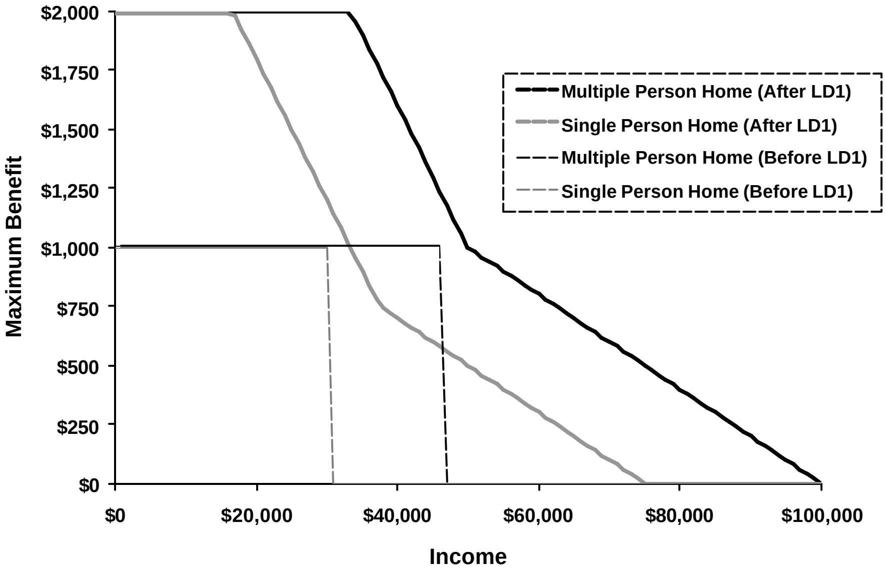
The first thing to know about the Maine program is that it is a two-tiered system with one circuit breaker threshold at 4% of income and another at 8% of income. The circuit breaker takes effect when property taxes exceed 4% of income, the first-tier threshold of the program. The amount of the refund in this first-tier is half of the amount by which property taxes exceed 4% of income, up to 8% of income. At 8% of income, the second-tier of the program takes effect. The program reimburses 100% of property taxes paid in excess of 8% of income. (Refund limitations are described below.)

How does Maine's circuit breaker formula apply to the retired couple described above with an income of $30,000 and a property tax bill of $3400? Four percent of their income is $1200; 8% of their income is $2400. They would qualify for a refund of half the amount of their taxes between $1200 and $2400 (or $600), plus the entire amount of their taxes over $2400 (an additional $1000), for a total circuit breaker refund of $1600. Once they receive their refund, the *net* burden of their property taxes is reduced from $3400 to $1800, or from about 11% of their income to 6% of their income.[5]

Two additional features of the Maine program are important, both of which were changed as part of the LD1 reforms. First, Maine has a maximum refund amount – set at $1000 before the LD1 reforms, and increased to $2000 as part of the LD1 reforms.

Second, Maine's program has either explicit (before LD1) or implicit (after LD1) income eligibility restrictions. Before LD1, households qualifying for circuit breaker benefits were required to have an income of no more than $30,300 (for single person households) or $46,900 (for multiple person households). These levels were adjusted annually for inflation. In LD1, the explicitly defined income eligibility criteria were replaced by a limit on the amount of property taxes that can be used to determine eligibility for the program. The limit on property taxes that qualify for circuit breaker relief was set at $3000 for single-person households and $4000 for multiple-person households. The implication of this provision is to phase-out the maximum benefits of the program at higher income levels, as illustrated in Figure 8.

Figure 8
Maximum Circuit Breaker Refunds



Now, with the maximum benefit phase-out, single-person households are eligible for some level of refund up to an income of $75,000; and multiple-person households are eligible for some level of refund up to an income of $100,000. But the maximum refund limits are considerably more modest for higher income homeowners than they are for lower income homeowners.

In summary, LD1 contained three important circuit breaker reforms.

1. It doubled the maximum benefit available to the lowest income households – those for whom the burden of property taxes is the highest of all.
2. It extended eligibility for benefits to middle and higher income households, provided that they too had a high burden of property taxes.
3. It eliminated the "cliff" between those who were and were not income qualified for the program, replacing it with a gradual phase-out of the maximum benefit.

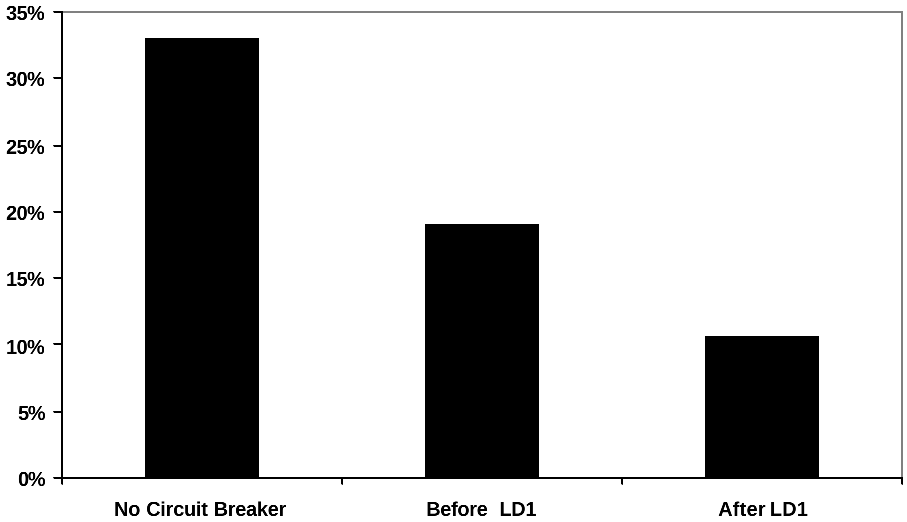
Close to half of Maine resident homeowners are eligible for property tax refunds under the reformed program.

Finally, an important implication of the two-tiered formula in Maine is that it creates the equivalent of a 6%-of-income property tax cap for all Maine residents who are not limited by the maximum refund provisions of the program. Taxpayers are responsible themselves only for the first 4% of their income in property taxes, plus half of the next 4% – or a total of no more than 6%. The next section quantifies the percentage of Maine residents whose taxes are actually limited by this 6% cap, based on the program criteria in effect before and after the LD1 reforms.

III. The Effect of the Circuit Breaker on Property Tax Burdens

In this section, we estimate the impact of the circuit breaker in moderating the property tax burden for those whose burden is highest. We compare the burden of property taxes (a) without circuit breaker refunds, (b) net of circuit breaker refunds, based on the program in place before the LD1 reforms and (c) net of circuit breaker refunds, based on the program in place after the LD1 reforms. The calculations are made using the most recent property tax and income data available to Maine Revenue Services, and applying the relevant benefit criteria (before and after LD1) to the same database. This enables us to isolate the effect of the circuit breaker, and the circuit breaker expansion, independent of other property tax reforms.

Figure 9
Percent of Homeowners with Tax Burden Above 6% of Income

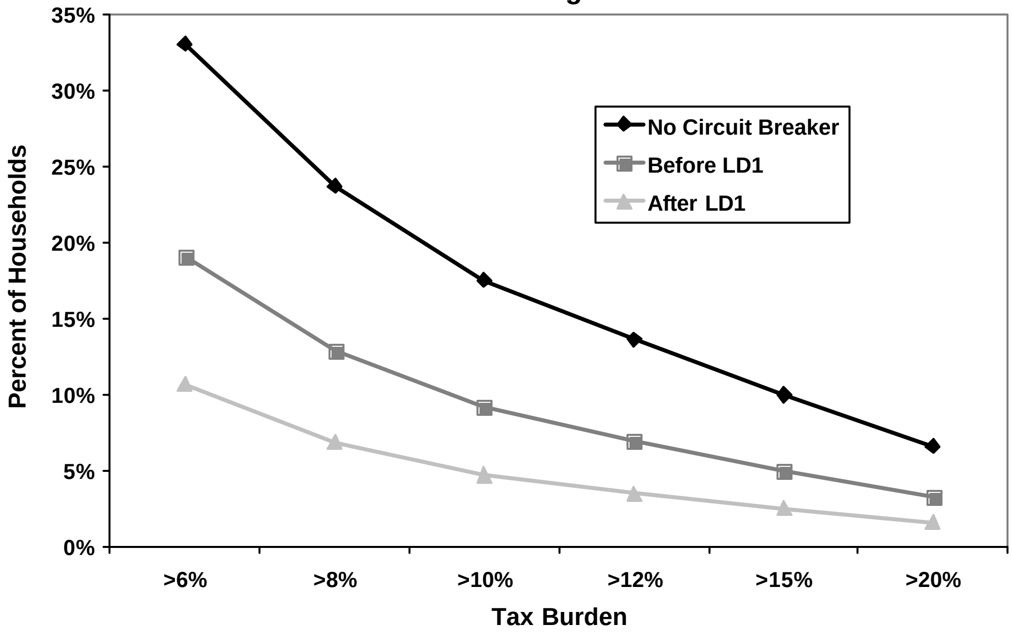


The analysis also concentrates on the tax reduction that households are eligible to receive – through circuit breaker refunds – setting aside the question of actual participation rates among those who are eligible. In other words, the analysis focuses on the impact of the circuit breaker, if it is fully used as intended. Actual participation rates, as well as ongoing efforts in Maine to raise participation rates are considered briefly in Section V.

The basic findings are illustrated in Figures 9 and 10. Figure 9 presents our findings for homeowners with a property tax burden exceeding 6% of income. Without circuit breaker refunds, 33% of Maine households have a gross property tax burden that exceeds 6% of their income. Using the benefit criteria in the pre-LD1 circuit breaker, and assuming full participation in the program, the proportion of Maine households with a tax burden that exceeds 6% of income is reduced from 33% to 19%. Using the enhanced circuit breaker provisions in effect after the LD1 reforms, the proportion of Maine households in the high tax burden category is reduced from 33% to 11%. In other words, two-thirds of Maine households who are in the highest tax burden category – paying more than 6% of their income in *gross* property taxes – can have their *net* tax burdens reduced to 6% or less as a result of the current circuit breaker refunds.

Figure 10 looks at the effect of the circuit breaker on homeowners with even higher gross property tax burdens. For example, the circuit breaker can reduce the percentage of households with a net tax burden greater than 10% of income – from 17% of households (with no circuit breaker) to 9% (with the old circuit breaker), and to 5% (with the

Figure 10
Effect of Circuit Breaker on High Burden Households



LD1 circuit breaker). The percentage of households with a tax burden greater than 20% of income is reduced from 7% (with no circuit breaker) to 3% (with the old circuit breaker) to less than 2% (with the LD1 circuit breaker).

Figures 11 and 12 estimate the impact of the circuit breaker among households in different income categories. Figure 11 shows the impact on households paying more than 6% of their income in property taxes. Figure 12 shows the impact on households paying more than 10% of their income in property taxes (including those paying more than 6%).

As one would expect, the impact of the circuit breaker is concentrated among lower income households. For example, among households with income of less than $30,000, more than 60% have a tax burden over 6% of income. By taking advantage of the LD1 circuit breaker, only 13% of these households are estimated to end up with a tax burden over 6% of income. Among households with

Figure 11
Percent of Households with Burden Above 6%

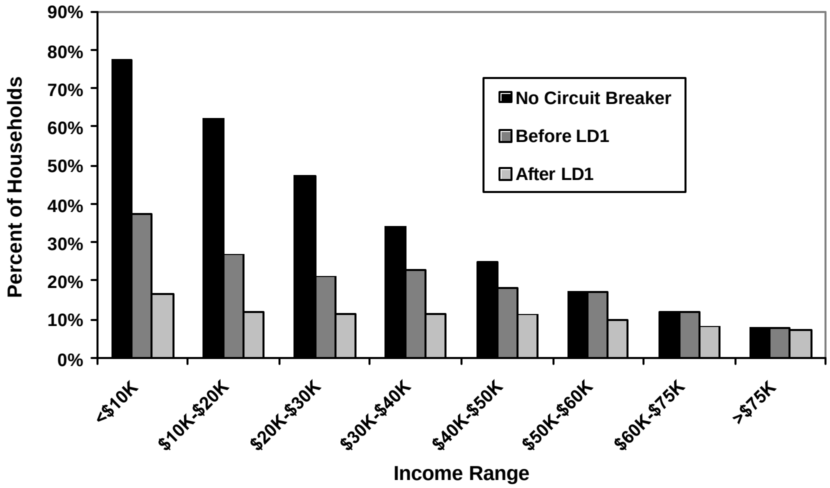
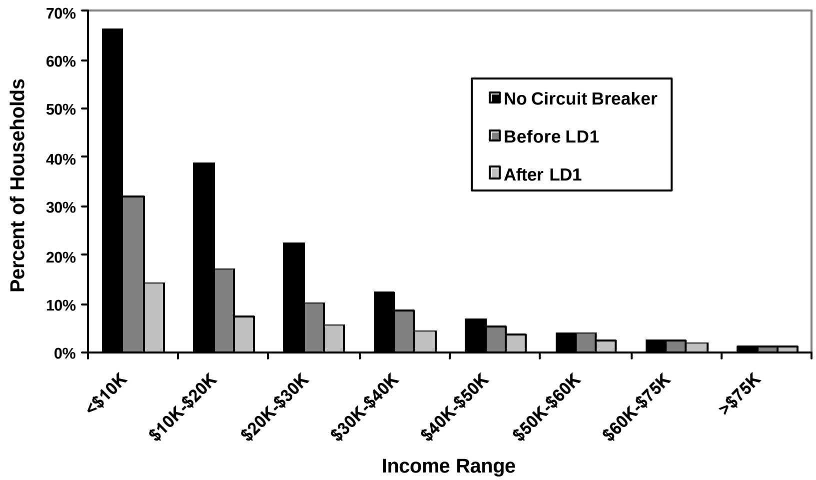


Figure 12
Percent of Households with Burden Above 10%



income between $30,000 and $60,000, 26% have a gross tax burden over 6% of income. By participating in the circuit breaker program, this declines to 11% of households. Among higher income households (those with income over $60,000), the reduction in households paying more than 6% of income is reduced only marginally, from 9% to 8% of households.

Figure 13
Effects of Circuit Breaker by County

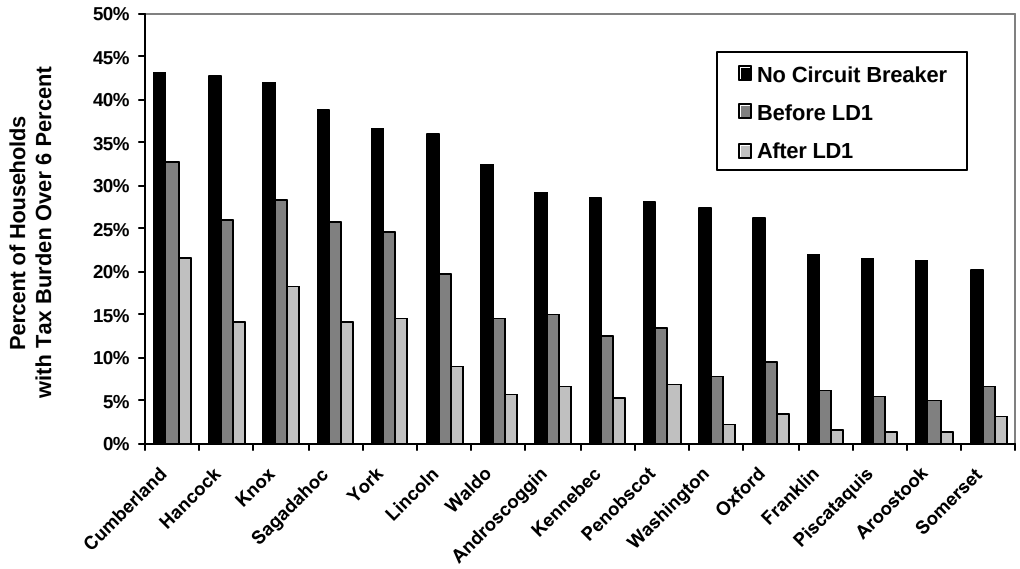
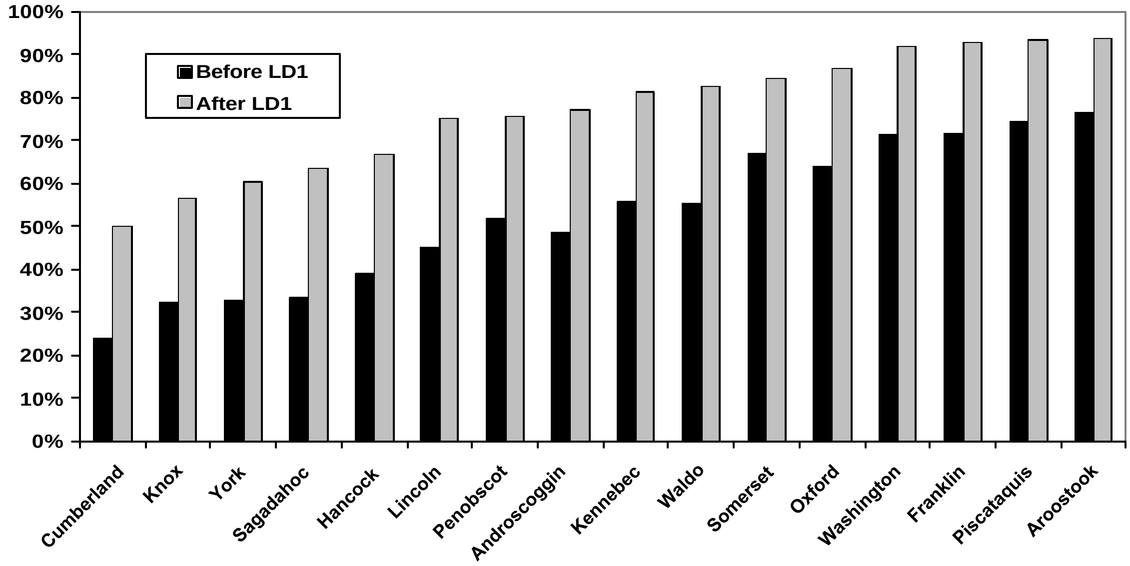


Figure 13 looks at the impact of the circuit breaker across counties. Interestingly, the effectiveness of the circuit breaker in bringing tax burdens below 6% of income varies considerably across counties. In Washington, Oxford, Franklin, Piscataquis, Aroostook, and Somerset counties, for example, the circuit breaker provides sufficient refunds, so that very few households (about 2%) still have a net tax burden of more than 6% of income. In Cumberland, Hancock, Knox, Sagadahoc, and York counties, on the other hand, there are still 18% of households with a net property tax burden over 6% of income, even after accounting for circuit breaker refunds.

Figure 14 makes much the same point, showing the percentage of those households with a gross property tax burden over 6% of income whose tax burden is reduced by the circuit breaker to no more than 6% of income. One might think of this as an "effectiveness" quotient.

Figure 14
Percentage of High Burden Households Whose Burden is Reduced by the Circuit Breaker to 6% or Less



In every county, at least half of those with a high gross tax burden have their burden reduced to no more than 6% as a result of the LD1 circuit breaker. In Washington, Piscataquis, Franklin and Washington Counties, more than 90% of those with the highest property tax burdens are brought down below 6%. In Cumberland County, just 50% are brought down below 6%. The implication is that the maximum benefit criteria in the program are more limiting in the southern and coastal counties.

IV. Households with High Net Tax Burdens

In this section, we evaluate the distribution of net tax burdens, after accounting for the circuit breaker refunds households are eligible to receive. More specifically, we ask who still has a high property tax burden, despite the availability of the circuit breaker program. Or put differently, who would benefit from further enhancements to the program, such as increasing the maximum benefit or the amount of gross property taxes that qualify for circuit breaker eligibility. Figures 15, 16 and 17 show the distribution of net tax burdens overall, by income and by county, respectively.

Figure 15
Distribution of Net Tax Burdens (after Refunds)

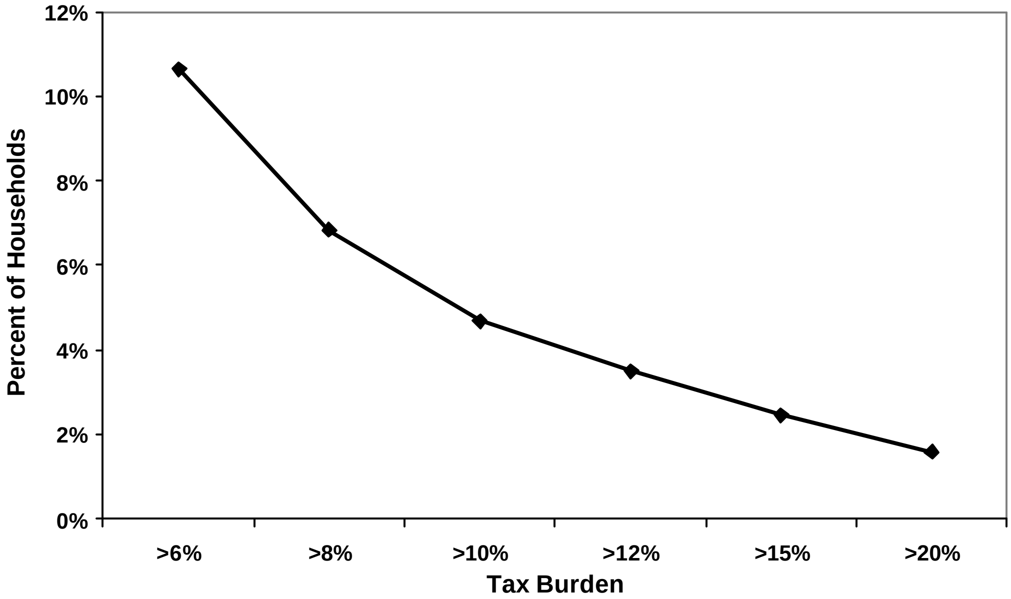


Figure 16
High Net Tax Burden Households by Income

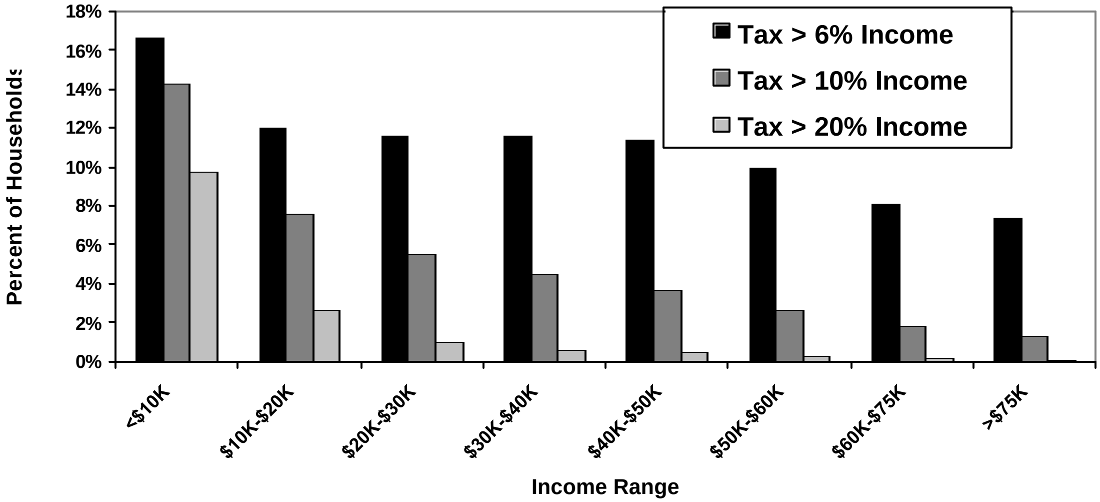
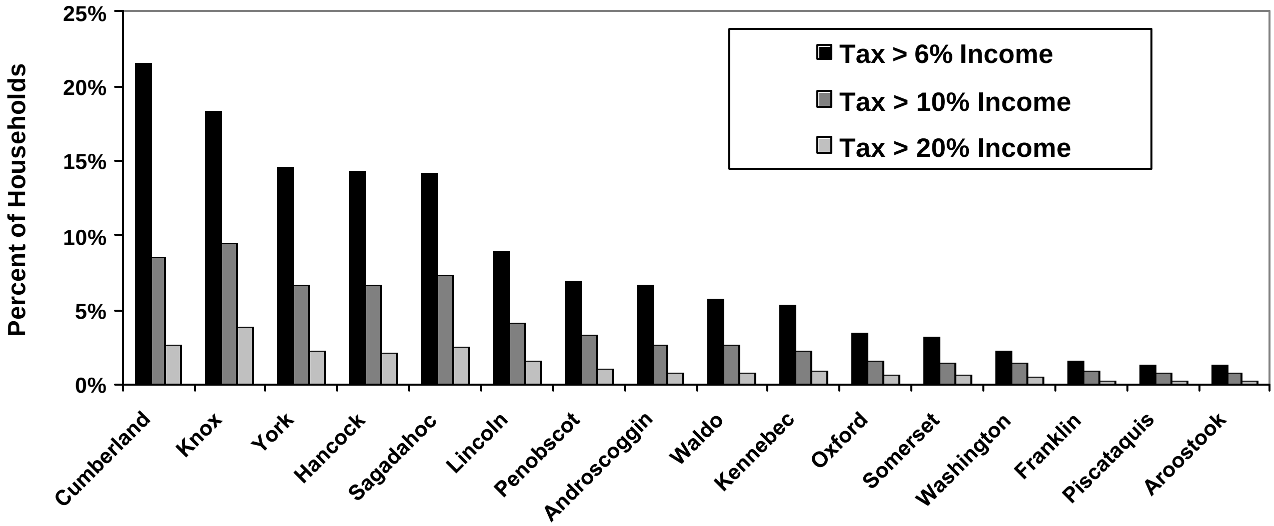


Figure 17
High Net Tax Burden Households by County



After accounting for all circuit breaker refunds allowed under the current program, an estimated 11% of homeowners still have a property tax burden exceeding 6% of their income (about 40,000 households), 5% of homeowners have a property tax burden exceeding 10% of their income (about 18,000 households), and 1.6% have a property tax burden exceeding 20% of their income (about 6000 households). While the variation by income is less pronounced, it is still primarily lower income households who carry the largest burden of property taxes, even after accounting for circuit breaker refunds. Two-thirds of homeowners with a net property tax burden over 10% of income have family income of less than $30,000. Nearly 90% of homeowners with a net property tax burden over 20% have family income of less than $30,000. Thus any additional increase in circuit breaker benefits would continue to be concentrated on lower income families.

Finally, as noted earlier, the circuit breaker does a very good job in moderating high property tax burdens in most of the inland counties, as well as Washington County. Many more households still have high net tax burdens in the southern and coastal counties, and particularly in Cumberland, Knox, York, Hancock and Sagadahoc counties.

V. Review and Discussion

There are a diversity of perspectives on the tax system in Maine and what "tax reform" should entail. For some, the issue is not so much the composition of our tax system as it is an overall burden of taxes that is among the highest in the country. For some, the issue is one of economic incentives (or disincentives), and improving the balance among taxes in order to minimize the economic distortions that accompany them. And for some, the issue is fairness in the burden of taxation. It is this latter issue that draws attention to the property tax, the uneven distribution of the property tax burden across households, and the circuit breaker as a tool to more equitably distribute that burden.

The first part of this study focuses on the wide variability in gross property tax burdens across households in Maine. About a third of Maine homeowners pay less than 3% of their income in property taxes; about a third pay between 3% and 6% of their income; and a third pay more than 6%. Some pay much more than 6%. In addition to their wide variability across households, property tax burdens are also highly skewed by income. Many more low-income homeowners face a high burden of property taxes.

The second part of the study describes the circuit breaker program in Maine and its potential impact in reducing the *net* burden of property taxes. In Maine, property tax refunds are available to most homeowners paying more than 4% of their income in property taxes; and, in most cases, these refunds create an effective "tax cap" of no more than 6% of income. Applying the circuit breaker provisions to data on Maine resident taxpayers, the study finds that two-thirds of the households in Maine with a *gross* property tax burden of more than 6% of income – could reduce their *net* burden to 6% of income or less through circuit breaker refunds. This is the primary conclusion of the study.

The effectiveness of the circuit breaker in reducing property tax burdens is enhanced substantially by the LD1 reforms enacted in 2005. With no circuit breaker, 33% of households pay more than 6% of their income in property taxes. By taking full advantage of the pre-2005 circuit breaker program, the percentage of households with a net tax burden over 6% of income is reduced from 33% to 19%. By taking full advantage of the reformed program, the percentage of households with a net property tax burden over 6% is reduced from 33% to 11%. If all households eligible for circuit breaker benefits applied for them, the number of households with a property tax burden over 6% would drop from 125,000 to 40,000. The number of households with a property tax burden over 10% would drop from 66,000 to 18,000. The number of households with a property tax burden over 20% would drop from 25,000 to 6000.

This study does not address the issue of participation, or efforts in place in Maine to increase participation. In recent years, about half of those eligible for circuit breaker refunds filed refund applications. With the 2005 program enhancements, new marketing campaigns, and an extended filing period that overlaps the timetable for income tax filings, the expectation is that future participation rates will come closer to full participation than they have in the past.

How does the circuit breaker fit into broader discussions of tax reform? The circuit breaker is not a program that noticeably lowers overall tax burdens in Maine; it uses money raised from state revenue sources (primarily income and sales taxes) to provide targeted relief in property taxes. It leads to a modest rebalancing in the overall mix of sales, income and property taxes – though the dollar magnitudes are small, when compared with revenue sharing or school funding. What the circuit breaker does well, however, is to contain the burden for those whose burden is highest. It does more than any other form of property tax policy to assure that people can afford the out-of-pocket burden of paying their property taxes.

While the 2005 reforms contained significant enhancements to the program, further expansions are possible. For example, one could raise the maximum refund to a level higher than $2000 and/or raise the amount of property tax that is eligible for circuit breaker reimbursement. Either reform would extend the "6% tax cap" that is implicit in the benefit formula to a still greater number of Maine households. Even in its current form, however, the circuit breaker is found to decrease quite dramatically the number and percentage of households with the highest burden of property taxes in Maine.

Endnotes

[1] See Maine State Planning Office, "LD1: First Year of Progress 2005," Summary Brochure, January 2006; Gabe, Todd, "State and Local Government Finances in Maine: Early Impacts of LD1," REP Staff Working Paper 557, University of Maine, January 2006; Maine State Chamber of Commerce and Maine Municipal Association, "Analysis of First Year Impact of LD1," February 2006.

[2] The income measure used in our calculations is the measure that Maine Revenue Services applies in their determination of circuit breaker benefits. It is a very broad income measure that includes wages and salaries, dividends, interest and capital gains, Social Security benefits, pension benefits, retirement plan distributions (including IRAs), cash public assistance, alimony, child support, inheritance, life insurance proceeds, disability benefits, workers compensation benefits and other income of all members of the household.

[3] As illustration, consider a family earning $150,000 with an oceanfront home worth $1 million in a community with a property tax mil rate of 20. Their gross property tax bill is $20,000. Under a simple 6% circuit breaker, their tax obligation would be capped at $9000, giving them a circuit breaker refund of $11,000. Some argue that this is appropriate, because a 6 percent of income tax cap is an appropriate limit. Others believe it would be unfair to provide very large refunds to homeowners who have such high incomes and/or such valuable properties.

[4] National Conference of State Legislatures, *A Guide to Property Taxes: Property Tax Relief*, November 2002.

[5] The program also provides refunds to renters, on the same basis as owners, by allowing them to count a certain portion of their rent as the "property tax component" of their rent. The allowable property tax component of rent was increased from 18% to 20% as part of the LD1 reforms. In addition, Maine has a very small companion program that provides slightly more generous benefits to certain low-income senior citizens.