

Give Maine's Working Families a Break

Fix and Fund the Circuit Breaker

By Joel Johnson

Introduction

Property tax increases in Governor LePage's budget proposal mean more hardship is in store for low- and middle-income property taxpayers who least can afford it. Maine policymakers can mitigate some of the damage by fully funding and fixing one of the most effective tax relief measures on the books: the Maine Residents Property Tax and Rent Refund Program, more commonly known as the circuit breaker. It provides targeted property tax relief to low- and middle-income families, where it is most needed and will do the most to boost Maine's economy. Unfortunately, the governor's budget proposal eliminates the tax break for individuals under the age of 65.

Rather than scale back the circuit breaker, as Governor LePage proposes, policymakers should restore its funding to pre-recession levels and give it a tune-up by:

1. Putting an additional \$10 million back into the pockets of low- and middle-income property taxpayers by halting the 20 percent cut in refunds that legislators have enacted for four straight years.
2. Improving the application process. Currently, only half of all Maine families eligible for property tax relief take advantage. Lawmakers should simplify the process by allowing taxpayers to submit applications through the Department of Health and Human Services' integrated system for determining eligibility for other services like MaineCare; synchronizing the application period with the income tax filing period and merging the circuit breaker application with state income tax form 1040; and improving outreach and marketing so that more families are aware of the hundreds of dollars in tax relief available to them.

These two steps will help improve the overall fairness of Maine's tax system, limit tax increases in the governor's budget proposal for low- and middle-income households, and boost Maine's economy.

After two years of tax cuts that mostly benefit high-income families and shift costs for schools, public safety, and other vital services to towns, cities, and property taxpayers, it's time to make low- and middle-income families the priority. Fully funding and fixing the circuit breaker would be a good start.

Property Tax Relief for Low- and Middle-Income Maine Families: More Important than Ever

Low- and middle-income families already pay more than their fair share of property taxes.¹ Low-income Mainers pay about 17 cents in state and local taxes on every dollar they earn. High-income Mainers, on the other hand, pay as little as 10 cents.

Sales and property taxes are the main causes of this disparity, as shown in Table 1 below. Almost 10 cents of every dollar earned by the poorest Maine households—those with incomes less than \$12,000 a year in 2009—goes to paying property taxes, either directly or through a landlord passing on the cost of the tax to renters. The wealthiest one percent of Maine households that earn more than \$323,000 annually, on the other hand, pays only about two cents in property taxes per dollar earned.²

Table 1: Low- and Middle-Income Families Already Pay More Than Their Fair Share of Property Taxes

Maine Effective Tax Rates By Expanded Income Level, 2009

Expanded Income Decile	Expanded Income Level	Property Taxes (Including Property Tax Relief Programs)	Sales Taxes	Income Taxes	Total State and Local Taxes
First and Second	Less than \$12,167	8.09%	7.20%	1.79%	17.06%
Third	\$12,168 to \$17,711	5.38%	3.99%	1.48%	10.86%
Fourth	\$17,712 to \$23,373	5.31%	3.77%	1.74%	10.82%
Fifth	\$23,374 to \$30,810	5.28%	4.09%	2.50%	11.87%
Sixth	\$30,812 to \$41,668	5.21%	3.45%	2.82%	11.48%
Seventh	\$41,669 to \$55,471	5.25%	2.96%	3.43%	11.64%
Eighth	\$55,472 to \$74,757	4.85%	2.31%	3.78%	10.94%
Ninth	\$74,758 to \$108,724	4.58%	1.67%	4.61%	10.87%
Tenth	\$108,724 and up	3.79%	1.65%	5.69%	11.29%
Total		4.57%	2.38%	4.34%	11.37%
90-95	\$108,725 to \$145,201	4.99%	1.68%	5.19%	11.90%
95-99	\$145,202 to \$323,241	4.56%	1.68%	5.68%	12.04%
Top 1%	\$323,242 and up	1.95%	1.60%	6.12%	9.99%

Source: Michael J. Allen, Ph.D. “Maine Tax Incidence Study: A Distributional Analysis of Maine’s State & Local Tax System,” Economic Research Division Maine Revenue Services Presentation to Joint Standing Committee on Taxation August 15, 2011

This problem is likely to get worse as the income, pension, and estate tax cuts lawmakers enacted over the past two years take effect and local property taxpayers begin paying for them by picking up the tab for services formerly funded by the state. Seventy-four percent of the benefits of these recent state tax cuts goes to Mainers earning at least \$67,000 per year. More importantly, these tax cuts left the state over \$200 million short of the revenues it needs each year to cover basic services like education, health care, and public safety.

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Absent any new revenue, the governor has proposed filling that hole partly by cutting revenue that traditionally goes to local towns and schools, shifting to property taxpayers even more of the cost of providing crucial public services that we all depend on.³

Despite supporters' claims, these tax cuts will do little to create jobs or stimulate the economy.

Despite supporters' claims, these tax cuts will do little to create jobs or stimulate the economy. On the contrary, they will result in state and local spending cuts, and layoffs of teachers, police officers, and firefighters—with negative impacts that will ripple through the economy in lower consumer spending, deteriorating roads, and less safe communities. The argument that income tax cuts will foster economic growth and job creation by making the state more competitive and providing tax relief for “job creators” is greatly exaggerated. States that have cut income taxes in recent decades were as likely to experience slower economic growth as they were to get a boost, and tax cuts can actually hurt state economies and job creation by reducing the ability to invest in education, job training, technology, infrastructure, and other resources that directly benefit businesses.⁴

At the same time, raids on state revenue for Maine's towns and cities are at all-time highs. In 2006, the Maine legislature began taking funds from a state account specifically created to provide support for municipalities and—by extension—property taxpayers. From 2006-2009, the raids were relatively small, anywhere from \$2 million to \$7 million, or 2 to 5 percent of the funding set aside for towns. But cuts over the past three years have averaged more than \$40 million, or about 30 percent. In his proposed budget for 2014-2015, Governor LePage suspends state aid to towns and cities entirely.⁵ This would starve municipalities of resources and burden property taxpayers who will likely have to make up for the lost state dollars.⁶

How to Provide Real Tax Relief to Low- and Middle-Income Families

Clearly, higher property taxes will be a blow to low- and middle-income Mainers who continue to struggle with slow wage and income growth and high unemployment. But strengthening the circuit breaker would help cushion the blow for many.

Step 1: Fund the Circuit Breaker

The legislature must return the value of circuit breaker refunds at least to pre-recession levels. In 2009, lawmakers cut all general program⁷ circuit breaker refunds by 20 percent in program years 2009 and 2010. In 2011, they extended the 20 percent cut for 2011 and 2012. As shown in Table 2, these cuts have cost low- and middle-income property taxpayers a total of more than \$35 million over the past four years.

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Table 2: Annual 20% Cuts to Circuit Breaker Are Adding Up for Low- and Middle-Income Families

Program Year	General Program Refunds	Total Refunds Without 20% Cut	Cut to the Average Refund	Total Cumulative Loss to Low- and Middle-Income Families
2009	\$35,665,496	\$44,581,870	\$118	\$8,916,374
2010	\$37,096,770	\$46,370,963	\$123	\$18,190,567
2011	\$38,207,310	\$47,759,138	\$124	\$27,742,394
2012	\$31,744,867	\$39,681,084	\$131	\$35,678,611

***2012 is incomplete and only reflects circuit breaker refunds through February, 2013**

Source: Maine Revenue Services

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Meanwhile, Maine’s largest business property tax refund program, the Business Equipment Tax Reimbursement (BETR), has been relatively unscathed in recent years. Millions of BETR dollars benefit large multi-state and multi-national corporations that don’t need Maine taxpayer help. The same cannot be said for the hundreds of thousands of Maine families who work hard and are struggling to provide for their families’ needs.

Maine’s circuit breaker provides targeted relief to those who need it most.⁸ Only property taxes paid by low- and middle-income Mainers on their primary residence are eligible, an important limitation since Maine is second only to Alaska in the percentage of homes that are only seasonally or occasionally occupied or dedicated to recreational use.⁹ In addition, the circuit breaker refunds are only available to households earning up to \$86,600 (\$64,950 for single-member households) unlike Maine’s other property tax break—the homestead exemption—which benefits Maine’s wealthiest resident homeowners in addition to low- and middle-income residents.

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Step 2: Fix the Circuit Breaker Application System

Maine’s circuit breaker is well-designed compared to similar programs in many other states, but it still reaches only half of those eligible.¹⁰ Despite a weak economy, high unemployment, and stagnant incomes, more than \$40 million in available tax relief went unclaimed in 2011. That indicates the application system is broken, and lawmakers should give the circuit breaker a much-needed overhaul.

Maine already has an efficient and reliable method —the Automated Client Eligibility System (ACES)—to check a struggling family’s eligibility for a variety of services at once, including MaineCare and nutrition assistance. The circuit breaker application is not part of the system, although it requires much of the same information from applicants as ACES does. Integrating circuit breaker applications with ACES would help deliver property

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tax relief to low- and middle-income Mainers who are eligible for a refund but may not know it. Another problem with the current circuit breaker application is timing. The application period begins long after the property tax or rent was paid, and it's not tied to the income tax filing process or the income tax outreach effort by Maine Revenue Services. For property taxes and rent paid in calendar year 2012, the application period won't begin until this August and extends through May 2014. Most folks closed the file on their 2012 taxes in April. By the time the circuit breaker application period arrives, last year's taxes are already history for busy working families. Lawmakers could fix this problem by synchronizing the circuit breaker and income tax filing periods and merging the circuit breaker application with state income tax form 1040.

In addition, when the circuit breaker application period comes around, it arrives much too quietly. State law requires that all eligible households be made aware of the rebate, but with tens of thousands of eligible households not receiving refunds, the current approach does not seem effective. History shows that improved outreach and marketing can make a difference. A \$50,000 marketing campaign in 1999 included television and radio advertisements and increased enrollment in the circuit breaker substantially.¹¹ It is clear that Maine must do more to inform low- and middle-income families about the availability of circuit breaker tax relief.

Conclusion

Recent and proposed state tax and budget policy choices will force higher taxes and fewer services on municipalities and low- and middle-income property taxpayers. Maine lawmakers can take an easy first step toward fairness and economic security for thousands of struggling Maine families by simply fixing and fully funding a law already on the books: the Maine Residents Property Tax and Rent Refund program. They should do it now. It is an important first step Maine lawmakers can take toward restoring fairness to Maine's state and local tax system that currently favors the wealthy at the expense of working families. And since the circuit breaker will put more money in the pockets of Maine working families, it will give local businesses a much needed boost, creating jobs and growing our economy.

About MECEP

The Maine Center for Economic Policy (MECEP) advances public policies that help Maine people prosper in a strong, fair, and sustainable economy. MECEP advances this mission through high-quality research, analysis, citizen education, and coalition building. MECEP is an independent, nonpartisan organization founded in 1994.

About the Author

MECEP Policy Analyst Joel Johnson has a BA in psychology from Grinnell College and a MS in resource economics and policy from the University of Maine where he specialized in econometric statistical analysis. He worked as an economist at the Maine State Planning Office. He serves as a member on the state's Consensus Economic Forecasting Commission.

End Notes

¹ Low-income Mainers pay about 17 cents in state and local taxes on every dollar they earn. High-income Mainers, on the other hand, pay as little as 10 cents. Source: Michael J. Allen, Ph.D. "Maine Tax Incidence Study: A Distributional Analysis of Maine's State & Local Tax System," Economic Research Division Maine Revenue Services Presentation to Joint Standing Committee on Taxation August 15, 2011 [www.maine.gov/.../taxation.../MRS Tax Incidence Study.pdf](http://www.maine.gov/.../taxation.../MRS_Tax_Incidence_Study.pdf).

² Michael J. Allen, Ph.D. "A Distributional Analysis of Maine's State & Local Tax System," Maine Revenue Services Presentation to Joint Standing Committee on Taxation August 15, 2011, [www.maine.gov/.../taxation.../MRS Tax Incidence Study.pdf](http://www.maine.gov/.../taxation.../MRS_Tax_Incidence_Study.pdf).

³ Garrett Martin and Joel Johnson, "The Consequences of Maine's Income Tax Cuts," Maine Center for Economic Policy, 2012, <http://www.mecep.org/av.asp?na=430>.

⁴ Michael Leachman, Micheal Mazerov, Vincent Palacios, and Chris Mai, "State Personal Income Tax Cuts: A Poor Strategy for Economic Growth," Center on Budget and Policy Priorities, March 21, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3936>.

⁵ Governor LePage's Proposed Biennial Budget for 2014-2015: <http://www.maine.gov/budget/budgetinfo/2014-2015biennial.shtml>.

⁶ The Maine Municipal Association has assembled data, analysis, news stories, and opinions of municipal leaders from across the state on the municipal impacts of Governor LePage's proposed budget. See: <http://mainetaxshift.memun.org/>.

⁷ Maine's circuit breaker program has two components: the general program and the elderly program. Elderly applicants are entered into whichever program gives them the higher refund. General program refunds account for the vast majority (88-89%) of the value of total refunds.

⁸ Michael Allen and Richard Woodbury, "Does the Circuit Breaker Relieve the Burden?," Maine Center for Economic Policy, April, 2006, www.mecep.org/av.asp?na=27.

⁹ US Census Bureau, 2011 American Community Survey, Table B25004.

¹⁰ *Bangor Daily News*, "Maine tax, rent refund program has low participation rate," September 24, 2012.

¹¹ Maine Revenue Services, 2001, "Outreach Effort for the Maine Residents Property Tax Program: 1999 & 2000".