



Fiscal Policy Foundations III: Property Taxes

There isn't a community in Maine that hasn't spent the past several years struggling to deal with ever-increasing pressure on property taxes.

Property taxes make up nearly 80 percent of all local taxes and fees. They help pay for schools, water treatment, roads and emergency services. But since 2012, Mainers have been paying a larger and larger share of their income to property taxes.¹

Recent Legislatures have done a good job of creating and growing programs that provide relief to Mainers vulnerable to property tax spikes. But those efforts have only addressed the symptoms of Maine's increased reliance on property tax, not its cause.

Policymakers' decision to enact budget-busting income tax cuts that primarily benefit the wealthiest are one of the key reasons for Maine's property tax increases. These income tax cuts reduced funding available to pay for local services and, as a result, the share of local revenue from state funding decreased from 29 percent in 2011 to 27 percent in 2015.²

To avoid future increases of property taxes, the next Legislature must make different decisions. The next cohort of lawmakers can meaningfully reduce upward pressure on property taxes by increasing state funding to finally meet its funding obligations to schools and communities.

REBALANCE PROPERTY TAX SYSTEM TO SUPPORT COMMUNITIES AND HOMEOWNERS

There are two ways to address the growing imbalance in Maine's property tax system.

Programs for individuals use tax credits and exemptions to offset property tax bills. They lower property taxes for specific groups — such as resident homeowners, low-income residents or seniors.

The bulk of efforts to address increasing property taxes have focused on individually targeted relief: Lawmakers recently doubled the **Homestead Exemption** to shield \$20,000 of a home's value from being taxed. The average savings from the expanded Homestead Exemption for Mainers across the state is roughly \$300. Legislators in 2013 created the

¹ Urban Institute State and Local Finance Query

² MMA fiscal survey,

https://www.memun.org/DesktopModules/Bring2mind/DMX/Download.aspx?EntryId=9881&Command=Core_Download&language=en-US&PortalId=0&TabId=480

PROPERTY TAX SPIKES HIT LOW- AND MODERATE-INCOME MAINERS MORE

Unlike the income tax, the property tax is assessed regardless of ability to pay. Property tax bills can grow as paychecks stay the same size — or even shrink. Property tax is also affected by factors outside payers' control, such as the cost of neighboring properties or decisions made by policymakers in Augusta.

That's why growing reliance on property taxes affects low- and middle-income Mainers more than those at the top. The bottom 60 percent of Mainers paid, on average, 3.2 percent of their income in property taxes in 2015. Meanwhile, the top 1 percent paid only 2.3 percent of their income.¹ Reducing the pressure on property taxes through individual and community level approaches would balance Maine's tax code by ensuring low- and middle-income Mainers aren't asked to pay more than their share.

Property Tax Fairness Credit, worth up to \$600 for non-seniors and \$750 for seniors, which increases the size of tax refund checks for low- and moderate-income Mainers.

While programs for low-income individuals and seniors are essential to balancing Maine's tax code for families, they do not address the upward pressure on property taxes caused by policymakers' decisions in Augusta.

That's where community-level relief comes in. Increasing funding for local services from state revenue streams, such as the income or sales tax, work to decrease reliance on property taxes as a funding source.

Community-level relief is the only way to reliably decrease pressure on property taxes in the long term. MECEP recommends the following solutions for the incoming Legislature in 2019:



Fully fund K-12 education. Lawmakers have consistently shortchanged Maine's schools. Maine voters have twice demanded that the state pay for 55 percent of the cost of K-12 education, but the Legislature has never hit that target. Towns have been forced to make up the difference through property taxes or cuts to services. Fully funding schools would alleviate pressure on local budgets and property taxpayers.



Provide adequate support for other local services. Lawmakers have also failed to fulfill the state's requirement to share 5 percent of state tax revenue with municipalities. In recent years, the state has shared only 2 percent of revenues, meaning local officials have had to raise property taxes and cut services to balance town budgets. Fully funding revenue sharing would help towns and cities cover their expenses in road maintenance, public safety and water treatment without raising property taxes.