

APPENDIX B - TAX REFORM SUMMARY

ROUND ONE

Property tax reform

Background

When the 122nd Legislature convened on December 1, 2004, the Governor presented a property tax reform proposal to the Legislature. That proposal took the form of **LD 1, An Act To Increase the State Share of Education Costs, Reduce Property Taxes and Reduce Government Spending at All Levels** and **LD 2, Resolution, Proposing an Amendment to the Constitution of Maine To Limit the Rate of Change in Taxable Value of Homestead Land**. The Legislature responded by appointing the Joint Select Committee on Property Tax Reform, comprised of 4 Senators and 11 members of the House of Representatives, which was directed to hear the bills and report them to the full Legislature by January 15, 2005.

The unusual, expedited schedule resulted from the January 15th effective date of the voter’s approval of Question 1 at the November election, requiring the State to pay 55% of the costs of public K-12 education and the possibility of the submission of additional citizens’ initiated referenda.

The Joint Select Committee met frequently in December and January on LD 1 and LD 2 and reported the bills out to the full legislature on January 14, 2005. LD 1, as amended, was enacted January 20, 2005 and signed by the Governor January 21, 2005 as Public Law 2005, chapter 2.

Provisions of LD 1 (as proposed and as enacted):

	LD 1 (as proposed)	LD 1 (as enacted) PL 2005, c. 2
Education funding	<p>Accelerates the transition to 55% State funding from 5 years to 4 years</p> <p>Establishes cap on growth in EPS costs and maximum state and local spending targets.</p> <p>Makes numerous other changes to facilitate implementation of EPS funding formula</p>	<p>Same as proposed</p> <p>Same as proposed. Details may include changes.</p> <p>Same goals as proposed. Details may include changes.</p>
Circuit breaker property tax relief	<p>Increases income eligibility maximum to \$50,000 single/\$70,000 multiple member households.</p>	<p>Eliminates income thresholds</p> <p>Increases max benefit from \$1,000 to \$2,000</p>

	LD 1 (as proposed)	LD 1 (as enacted) PL 2005, c. 2
Circuit breaker property tax relief (Con't)	<p>Directs funds to circuit breaker reserve for future program expansions</p> <p>Directs State Tax Assessor to calculate increase in maximum benefit based on future available funds.</p>	<p>Establishes maximum property taxes used to calculate benefits to \$3,000 single/\$4,000 multiple member households</p> <p>Increases % of rent constituting property taxes from 18% to 20%</p> <p>Extends close of application period from 12/31/to 5/31</p>
Homestead exemption	No change proposed	<p>Homestead exemption increased to \$13,000 for all homesteads.</p> <p>State reimbursement to municipalities reduced from 100% to 50%.</p>
Property tax deferral	Requires Maine State Housing Authority to develop a plan to issue bonds to support a property tax deferral program for taxes on principal residences that exceed 6% of the owners' income.	No provision
State Spending Limitations	<p>Provides a cap on state GF appropriations based on real personal income growth plus forecasted CPI.</p> <p>Changes design and use of Maine Budget Stabilization Fund</p>	<p>Provides a cap on state GF appropriations based on real personal income growth and population.</p> <p>Income growth factor increases by forecasted CPI if tax burden falls to middle third of all states.</p> <p>Changes design and use of Maine Budget Stabilization Fund</p> <p>Creates Tax Relief Fund which receives funds when are other funds are at caps.</p>
County Spending Limitations	<p>Provides a cap on county tax assessment based on real personal income growth and property value growth.</p> <p>Income growth factor increases by forecasted CPI if tax burden falls to middle third of all states.</p>	<p>Provides a cap on county tax assessment based on real personal income growth and property value growth.</p> <p>Income growth factor increases by forecasted CPI if tax burden falls to middle third of all states.</p>
Municipality Spending Limitations	<p>Provides a cap on property tax levy based on real personal income growth and property value growth.</p> <p>Income growth factor increases by forecasted CPI if tax burden falls to middle third of all states.</p>	<p>Provides a cap on property tax levy based on real personal income growth and property value growth.</p> <p>Income growth factor increases by forecasted CPI if tax burden falls to middle third of all states.</p>

	LD 1 (as proposed)	LD 1 (as enacted) PL 2005, c. 2
BETR	Changes BETR funding from a GF appropriation to a GF revenue reduction in the individual income tax line	No provision (Note: Part 1 Budget Bill makes this change)
Tax burden reduction	Establishes goal of reducing Maine's state and local tax burden to the national average by 2015 Directs Governor to appoint commission to monitor and report on progress in achieving goal	Establishes goal of reducing Maine's state and local tax burden to the middle 1/3 of states by 2015 Requires State Planning Office to collect data and report on progress in achieving goal.
Revenue sharing	No provision	Changes revenue sharing distribution to provide larger portion of revenue sharing funds to municipalities with higher tax burden.

Constitutional amendments: In addition to **LD 2, Resolution, Proposing an Amendment to the Constitution of Maine To Limit the Rate of Change in Taxable Value of Homestead Land**, the Joint Select Committee sought and was granted permission to report out five other bills proposing to amend provisions of the Maine Constitution relating to property tax. These six bills reached the following outcome:

LD	Title	Outcome
2	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Limit the Rate of Change in Taxable Value of Homestead Land	Recommitted to Taxation Committee and carried over
295	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Allow the Legislature To Permit Municipalities To Adopt a Higher Property Tax Rate on Secondary Residential Property	Died between Houses
296	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Allow the Legislature To Authorize or Require a Growth Limitation on the Taxable Value of Small Business Land	Died between Houses
297	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Allow the Legislature To Authorize Municipalities To Adopt a Property Tax Assistance Program That Reflects a Claimant's Ability to Pay	Recommitted to Taxation Committee ONTP
298	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Authorize the Legislature to Allow Municipalities To Exempt from Property Tax a Portion of the Value of Homesteads	Recommitted to Taxation Committee ONTP
299	RESOLUTION, Proposing an Amendment to the Constitution of Maine To Permit the Legislature To Allow the Current Use Valuation of Waterfront Land Used for or That Supports Commercial Fishing Activities	Finally Passed ConRes, c. 1 On November ballot

ROUND 2**Overall tax reform**

Background. Events in recent years have culminated in the establishment of overall tax reform as a priority for many members of the 122nd Legislature, although there is wide variation in the proposals for achieving it.

Following the enactment of LD 1 and the dissolution of the Joint Select Committee, the venue for tax reform discussion moved to the Joint Standing Committee on Taxation. Many tax reform bills were heard and discussed including a proposal from the Governor, **LD 1660, An Act to Reduce Income Taxes and Encourage Economic Growth in Maine.**

Recommendations of the Taxation Committee. The major piece of tax reform legislation emerging from the Taxation Committee late in the session was **LD 1595, An Act To Rebalance Maine's Tax Code** sponsored by the committee chairs, Rep. Richard Woodbury and Sen. Joseph Perry. The committee's recommendations (a 7-6 majority) contained the following elements. LD 1595 was recommitted to the Joint Standing Committee on Taxation and carried over.

Tax Policy Area	LD 1595 Committee Amendment "A" Proposal	Effective date
Income Tax	1. Low income tax credit	
	Increases LITC from \$2,000 to \$4,000 (single), \$6,000 (HOH), and \$8,000 (joint)	TY beg. 1/1/06
	2. Standard deduction	
	Conforms the standard deduction to the federal level, thereby eliminating the marriage penalty	TY beg. 1/1/06
	3. Personal exemption	
	Conforms the personal exemption to the federal level	TY beg. 1/1/06
	4. Income tax rates	
	Decreases the top income tax rate in all filing categories from 8.5% to 8.25% starting in TY2006.	TY beg. 1/1/06
Property Tax	5. Health savings accounts	
	Conforms to federal treatment of health savings accounts	TY beg. 1/1/06
	1. Homestead Exemption	
	Increase state reimbursement to 100% to fully fund the homestead exemption	06 PTY FY 07
	2. Circuit Breaker	
	Increase maximum benefit from \$2,000 to \$3,000; and increase benefit base (maximum property tax that can be used to calculate benefits) to \$5000.	8/1/06 application
Education funding	Increase State share of costs of Essential Programs and Services (EPS) to 55% beginning in FY 2006-07	FY 07

Tax Policy Area	LD 1595 Committee Amendment "A" Proposal	Effective date
Budget Stabilization Fund	All Net Revenues Appropriated to Budget Stabilization Fund to be available to fund the increased State commitment to education funding in future years.	
Sales Tax Base Expansion	<p>1. Repeal or amend following exemptions</p> <p>A. Packaging materials B. Long term rentals-- increase period triggering exemption to 100 days C. Ships stores D. Railroad track materials E. Certain vending machine sales F. Consumer Interstate telephone calls G. Basic cable and satellite TV and radio H. Reimpose Snack Tax</p>	ALL 1/1/06
	<p>2. Expand sales or service provider taxes to the following services</p> <p>A. Personal services B. Personal property services C. Real property services D. Amusements and recreation E. Lawn, landscaping and tree services F. Taxi and limousine services G. Telephone directory advertising H. Safe deposit box rental I. Basic cable and satellite television and radio services</p>	ALL 1/1/06
Meals and lodging	Increase from 7% to 8% sales tax on lodging, prepared food and liquor sold in licensed establishments	10/1/2005
Auto rentals	Increase the sales tax rate on short term auto rentals from 10% to 15%	10/1/2005
Beer and wine	1. Increase the excise tax on beer from 25 cents per gallon to 60 cents per gallon	1/1/2006
	2. Increase the excise tax on wine from 30 cents per gallon to \$1.00 per gallon	1/1/2006
Soda	Enact an excise tax on soft drinks equal to \$4 per gallon of soft drink syrup and 42 cents per gallon of bottled soft drinks	1/1/2006
Real estate transfer tax	Changes schedule of real estate transfer tax (for buyer and seller) to \$1 per \$1000 for properties with a value less than \$100,000; \$2 per \$1000 on properties with a value of \$100,000 to \$200,000; \$3 per \$1000 with a value of \$200,000 to \$300,000; \$4 per \$1000 with a value of \$300,000 to \$500,000; \$5 per \$1000 with a value of \$500,000 to \$750,000; \$6 per \$1000 with a value of \$750,000 to \$1,000,000; and \$7 per \$1000 for properties over \$1,000,000. Changes GF/HOME Fund distribution from 50/50 to 65/35.	10/1/2005