

Tax Reform Proposal Type/Sponsor/Contact

Citizens: *School Finance and Tax Reform Act of 2003*

A Citizen Initiative initially developed by Maine Municipal Association; now advanced by “Citizens To Reduce Local Property Taxes Statewide”

Contact: Dana Lee (Mechanic Falls)

Palesky: *An Act to Impose Limits on Real and Personal Property Taxes*

Citizen Initiative developed by “Maine Taxpayers Action Network”

Contact: Carol Palesky (Topsham)

Colorado: *An Act to Provide Tax Relief*

Citizen Initiative developed by “Citizens for a Strong Maine Economy”

Contact: Debi Davis (Raymond)

Chebeague: *The Maine Land Bank and Community Preservation Program*

Probable legislation developed by citizens of Chebeague Island (Cumberland) and Harpswell

Contact: David Hill (Yarmouth)

Saxl: *Recommendation of Speaker’s Advisory Committee on Tax Reform*

Probable legislation developed by the Advisory Committee of former House Speaker Mike Saxl

Contact: Ted Potter, Speaker’s Office

Eco-Eco: *Recommendations of the “Eco-Eco Civic” (or Smart Growth) Forum*

Probable legislation developed by a central committee of the Forum

Contact: Rep. Ted Koffman (Bar Harbor)

McGowan: *An Act to Provide Property Tax Relief for Maine Residents and Businesses and Implement Comprehensive Tax Reform*

Probable legislative proposal developed by Rep. Barney McGowan (Pittsfield)

Contact: Rep. McGowan

Constitutional Changes

Citizens: No changes proposed.

Palesky: No changes proposed, but one major element of the proposal is in conflict with Maine’s Constitution.

Colorado: No changes proposed.

Chebeague: Yes, to allow for restricted increases in land assessment.

Saxl: No changes proposed.

Eco-Eco: Maybe, to allow separate taxation of Maine residential and Maine non-residential property, by local option.

McGowan: Yes, to allow for mill rate caps on education funding and require a 2/3 (supermajority) vote of the Legislature to access the Educational Rainy Day Fund.

Property Tax Changes/Relief

Citizens: No direct changes to Maine’s property tax code, but requires State to provide 55% of total revenue necessary to pay for K-12 education, moving \$200 million of burden off the property tax.

Palesky: 1) Creates a maximum property tax rate of 10 mills for all Maine municipalities, with exceptions for “grandfathered” debt service and for any future debt service approved by at least 2/3 of the local voters at referendum.
2) Caps the assessed value of all property at the 1997 (equalized) value, indexed annually either by inflation index (Consumer Price Index) or 2%, whichever is less.

Colorado: 1) Repeal and replace the current Homestead Property Tax Exemption with a new version.
2) Expand the value of the Homestead Exemption (currently \$7,000) to \$12,500 for FY 04, \$25,000 for FY 05, \$37,500 for FY 06 and \$50,000 for FY 07. The value of the homestead exemption would be indexed after FY 07 by the rate of statewide growth in taxable property.
3) Convert the mechanics of the exemption from a state reimbursement to municipalities to a direct rebate to the homeowners.
4) Eliminate distribution of “Circuit Breaker” benefits to homeowners, restrict that program to renters only.

Chebeague: 1) Creates “Tree Growth”-type program open to virtually all landowners.
2) Upon enrollment, land (not buildings) assessed value would be capped at 1997 (equalized) value indexed annually either by inflation index (Consumer Price Index) or 2%, whichever is less.
3) Unlike Tree Growth, there would be no restrictions on the development of the land.
4) Sale of the property (not including bequeathment or transfers to heirs, etc.) would trigger Tree Growth-type penalty (e.g., 20% of difference between market value and assessed value at time of sale).

Saxl: 1) 200% expansion of the Circuit Breaker program to provide property tax rebates to households with as much as \$75,000 income.
2) Phase-in a repeal of most, but not all, personal property taxes (e.g., retain the tax on retail personalty) and provide municipalities with 50% of lost tax revenue according to Constitution.
3) Require the State to assess all industrial property over \$10 million in value, and charge municipalities for the service.
4) Increase municipal revenue sharing from 5.1% to 6% of sales and income tax revenue and re-adjust “Rev II” distribution formula to exclude municipalities with mill rates under 15 (rather than 10).
5) Establish a special commission to develop a formula to calculate a fee-for-service charge to be applied to tax exempt properties.

Eco-Eco: 1) Require the State to pay fixed share of the cost of K-12 education, as calculated by the developing Essential Programs and Services funding system, but expose municipalities to some share of teachers’ retirement in that arrangement.
2) Repeal Homestead Exemption reimbursement and double Circuit Breaker program.
3) Allow, or require, municipalities to provide homestead exemption without reimbursement.
4) Modify Revenue Sharing to increase influence of Rev II formula.
5) Repeal personal property tax, reimburse municipalities for 50% of lost revenue.

McGowan: 1) Establish a split rate property tax system for education funding: a 4 mill cap for residents and businesses, a 12 mill cap for second homes.
2) Phase-in a repeal of all personal property taxes, reimbursing municipalities for 50% of lost tax revenue

Income Tax Changes

Citizens: Leaves details of comprehensive tax reform to the Legislature.

Palesky: No changes proposed.

Colorado: 1) Beginning with income tax year 2005, require Maine’s personal exemption (currently \$2,850) to equal the federal personal exemption (\$3,000 in 2002).
2) Over a 5-year period, eliminate the tax liability for the lowest income bracket and reduce remaining 3 income tax rates (currently 4.5%, 7% and 8.5%) by 20%.

Chebeague:No changes proposed.

Saxl: 1) Phase-in a refundable earned income tax credit (EITC) for low income working households, equal to 30% of the federal EITC.
2) Phased down the highest income tax rate (8.5%) to 6.75%.
3) Conform Maine’s personal exemption to the federal level.

Eco-Eco: Increase personal exemption to federal level. Modify four marginal rates into three, dropping the highest rate from 8.5% to 8%.

McGowan: Create an automatic system that captures income tax revenue that exceeds the growth in Total Personal Income and uses that captured revenue to pay for designed across-the-board reductions in income tax rates (or expansions of income tax brackets).

Sales Tax Changes

Citizens: Leaves details of comprehensive tax reform to the Legislature.

Palesky: No changes proposed.

Colorado: No changes proposed. Defines any proposal to increase the rate or expand the base of any tax as a proposal to “increase revenue”, which triggers a general requirement at state and local level to approve by a supermajority vote (2/3) and be ratified at referendum.

Chebeague: No changes proposed.

Saxl: 1) Increase the “meals and lodging” sales tax, currently 7%, to 8% for meals and 9% for lodging.
2) Expand the sales tax base to include the following services, commodities, or purchases currently exempt.

Services: Custom computer programming, camp rentals, funeral services, personal services, amusement and recreational services, membership, social and miscellaneous services (consumer only, excluding charitable and labor unions), limited business membership services, business entertainment services, transportation services (consumer only, excluding business and public transportation), consumer (non-business) interstate calls
Commodities: Products used in agricultural/aquacultural production, publications sold on short intervals (newspapers), meals and lodging provided to employees, certain aircraft parts, vending machine sales
Purchases: Sales to private schools and colleges, regularly organized churches, institutions conducting medical research/scientific study, day care centers and nursery schools, community action agencies/child abuse councils, monasteries and convents, state-chartered credit unions, and sales by schools and school sponsored organizations

Eco-Eco: Convert the sales tax (a tax on consumers) to a gross receipts tax (taxing businesses for the gross value of transactions). In concept, the gross receipts tax base would be very broad, have few exemptions, and could therefore be levied at a much lower rate (e.g., 2.5%). Increase meals & lodging tax to 8% and allow for local option.

McGowan: In the process of voter ratification of overall tax reform proposal, offer an option to the voters in November, 2003 to pay for the property tax relief by either increasing the sales tax rates by 2% or by expanding the sales tax base, according to a plan, and limiting any rate increases. The Legislature would implement the voters’ decision.

Other Tax Changes

Citizens: Specifics of tax reform left to the Legislature.

Prop. 13: None proposed.

Davis: None proposed.

Chebeague: None proposed.

Saxl: Double excise tax paid by beer and wine distributors.

Eco-Eco: Double excise tax paid by beer and wine distributors. Cap on Rainy Day Fund increased from 6% to 10% of annual General Fund revenues.

McGowan: Creates special Rainy Day Fund to ensure state’s capacity to fund public education.

Annual Fiscal Impacts (*approximate*)

Citizens: Shift \$200 million in educational funding from the property tax to State resources.

Palesky: Reduce municipal revenues by \$675 million (in 2001 dollars), or 48% of total property tax collection.

Colorado: When fully implemented (using 2002 dollars) the income tax changes would reduce state revenues by \$334 million and the increased homestead exemption would cost the state \$286 million. After offsetting the repeal of the current Homestead Exemption, the negative fiscal note to the State is \$557 million, or 20% of State General Fund revenue.

Chebeague: Reverting to a 1997 property tax base will raise the mill rate in all municipalities where there is participation. After enrollment is stabilized, this proposal would shift the property tax burden from landowners enrolled in the program to landowners not enrolled, but aggregate municipal revenue would be neither increased nor decreased by the proposal. State education subsidy would move toward municipalities with high enrollment.

Saxl: The proposed sales tax changes are calculated to generate \$100 million annually, which would be used to pay for the following changes:
Property Tax: Revenue Sharing increase - \$17 million; Circuit Breaker increase - \$41 million.
Income Tax (when fully phased-in): Refundable Earned Income Tax Credit - \$35 million; Conform to federal personal exemption - \$10 million; Rate reductions, individual income tax - \$175 million
NOTE: In 2002 dollars, the phased-in repeal of the personal property tax, after 20-plus years when most personal property will be exempt from taxation, will cost municipalities \$160 million in lost revenue, one-half of which (\$80 million) will be reimbursed by the State.

Eco-Eco: Expanded revenue from gross receipts tax would provide additional state support for education (unknown value) and would cover income tax relief (\$100 million). Long-term cost analysis should partially offset property tax relief with personal property tax revenue loss (see note under Saxl proposal).

McGowan: The 4 mill/12 mill cap on local spending for education would shift \$345 million from the property tax to state resources. Long-term cost analysis should partially offset property tax relief with personal property tax revenue loss (see note under Saxl proposal).

Revenue or Expenditure Limitations

Citizens: The proposal calls for the Legislature to develop, enact and maintain a comprehensive “tax burden management plan”, coordinating strategies at the state, regional, school and local level to address Maine’s overall tax burden.

Palesky: The proposal is specifically designed as a local government revenue limitation system by capping both the mill rate (at 10 mills) and increases to assessed values (at the lesser of inflation or 2%).

Colorado: Without special approval by the voters, governmental revenues at state, school and local level would be limited to previous year revenue adjusted by inflation and population. To exceed that cap, the state or local legislature would have to approve the increase by a supermajority (2/3) vote, and the full electorate would have to approve at referendum.

Chebeague: The proposal shifts burden within a community rather than limiting revenue.

Saxl: 2% of State revenues would be automatically diverted to a budget stabilization fund, which would be capped at 12% of total General Fund revenues.

Eco-Eco: None proposed.

McGowan: Proposal would provide a 4 mill/12 mill cap on the mill rates to be applied for education funding, but local voters could exceed those caps if approved at referendum.

Additional Directives or Measures

Citizens: 2% of the total state educational subsidy (or \$18 million annually) and 2% of total municipal revenue sharing (or \$2 million annually) would be set aside into special funds to be provided to schools and municipalities that are willing to change their policies, governance structure, or service delivery programs in a way that provides sustained long-term cost savings.

Palesky: None proposed.

Colorado: None proposed.

Chebeague: None proposed.

Saxl: Commission created to develop formula to determine fees for municipal services that could be applied to governmental and non-governmental entities that are exempt from property taxation. Commission created of state, regional and local officials and private sector/general public members to recommend strategies to obtain efficiencies in the delivery of governmental services.

Eco-Eco: Require state to develop school and county-based regional efficiencies plan.

McGowan: None proposed.