

Homeowner's Guide to Property Tax



Property taxes in Maine generate \$2.0 billion a year to fund local government services. Of the three major taxes – income, sales and property – used to fund Maine state and local governments, property taxes comprise the larger slice of the revenue pie. Property taxes currently account for 41% of the revenues in Maine generated by the three major taxes. The income taxes (corporate and personal) generate 37%, and the sales tax generates 22% of the total.

Property taxes have been with us since colonial times when a person's wealth could be measured in the amount of property a person owned. Although it is our oldest form of taxation in Maine, the property tax still remains widely misunderstood. As the fundamental structure of our economic system has evolved from an agricultural economy to a manufacturing economy to a services-based economy, the patterns of ownership have changed and the property tax has become quite regressive because it is no longer necessarily based on a person's wealth or ability to pay.

What Property Is Taxed?

Both real (land and buildings) and personal property (tangible goods) are subject to taxation, unless they are exempted by law or subject to another form of taxation, such as the excise tax for motor vehicles and boats. Since home furnishings are largely exempt from personal property taxes, the property tax bill for most Maine homeowners is based on the value of the land, the house, and the outbuildings.

Local assessors are required by law to "ascertain as nearly as may be the nature, amount and value as of the first day of April of the real estate and personal property subject to be taxed . . ." This means that if on the 1st day of April you own property that is subject to taxation, then you are liable to pay those taxes to your municipality.

How Is Property Assessed?

The Maine Constitution says that property shall be assessed at its "just value." The courts have interpreted "just value" to mean fair market value or in other words "what the property is worth." A property's worth is commonly looked at as "what a willing buyer would pay a willing seller" for a particular piece of property.

Determining the market value of property is no easy task. Local assessors use three basic methods to determine a property's worth. One method compares the selling price of similar types of property. A second method determines how much it would take at the current price of materials and labor to replace a building, then subtracts out how much the building has depreciated. The third assessment method evaluates how much income the property would produce if it were rented, like an apartment house, store or factory. One, two or all three of these methods might be used to help the assessor determine the fair market value of your property. It is also important to note that land and buildings are valued separately. Therefore, a home with water frontage may be assessed at a significantly higher value, because of the land's value, than an identical home without water frontage.

To implement the constitutional requirement that real estate be assessed at its "just value," and in recognition of the tremendous difficulty and costs to a municipality to maintain a "just value" assessment, the Maine Legislature enacted assessing standards that municipalities must meet. One standard is that the total local valuation of taxable property not fall below 70% of fair market value. Another standard is that the quality rating of assessments not exceed 20 (which basically means that the difference in valuation between similar properties should never be greater than 20%).

Revaluations are commonly used when a community falls below the assessing standards. During a revaluation, all property in the municipality is inspected and assessments are adjusted to their fair market value.

In 2008, the total value of taxable property in Maine was approximately \$145 billion, which generated about \$2.0 billion in property tax revenue to fund the operation of Maine's 491 cities, towns and plantations, as well as a large portion of the cost of Maine's 220 school administrative units, and the budgets of the 16 counties.

How Are Property Taxes Collected?

Property taxes are levied according to a mill rate. The mill rate is the dollars/cents per \$1,000 of value that you will pay in property taxes. For example, if you own a home valued at \$100,000 and the tax rate is 20 mills, then your tax bill will be \$2,000 (or \$20 x 100).

In calculating a property tax rate, the legislative body of the municipality (town meeting or council) determines the amount of revenue needed to be raised by the property tax to fund municipal services, and pay its school and county assessments. That amount is then divided by the total local assessed valuation to get the local tax rate. For example, a town that has a local assessed valuation of \$100 million and needs to raise \$2 million in property taxes will require a tax rate of 20 mills to do so (\$2,000,000 divided by \$100,000,000 equals .020).

Another way to look at the mill rate is as a percentage of value. For example, if your home is valued at \$100,000 and the mill rate is 20, then your property taxes are equal to 2% of your home's value; if the mill rate is 15, then it is 1.5% of the home's value; 10 mills is 1%.

The municipal assessor(s) calculates how much must be raised in property taxes based on what the legislative body has approved, as well as the assessment, levied against the town or city by the school district and county. A tax commitment listing all the property in town, its value and the taxes that are owed is then signed by the municipal

officers and given to the tax collector who sends out the tax bills. In many Maine communities, property taxes are paid in one lump sum. Increasingly, municipalities have moved to collecting property taxes twice a year. Property taxes may also be escrowed and payments made as part of a homeowner's monthly mortgage payment.

What Services Do Property Taxes Fund?

Maine communities provide a vast array of services, including police and fire protection, winter and summer road maintenance, code enforcement, planning, economic and community development, issuance of licenses, recreation, parking, solid waste collection and disposal, water and sewer services, emergency medical services, health and human services, and sometimes more depending on where you live. Property taxes on average fund about 58% of the cost of local governments. The remainder of the revenue comes from state assistance as well as other sources of municipal revenue (e.g., motor vehicle excise taxes, fees, fund balances, etc.).

The biggest bite of your property tax dollar is used to fund education. The average Maine community uses 68% of its property taxes to fund education. The total statewide cost of K-12 education, which is approximately \$1.9 billion annually, is funded by both the state and local governments. In response to a 2004 citizen initiative, the state has committed to funding 55% of the cost of K-12 education, based on the Essential Programs & Services (EPS) funding model. However, in 2010, the state's share of K-12 education is 44%. Despite that commitment, the 55% level of funding has never been achieved.

The level of services that a community provides is determined by the legislative body. In a municipality that is governed by the town meeting, the residents are the legislative body and through their votes at town meeting they determine the amount of property taxes that will need to be raised. Because of their size, some larger

communities have representative government. City or town councils are elected by the citizens to serve as the legislative body of the municipality and are charged with approving the municipal budget and determining the amount of property taxes that will be raised. The electoral process is used to decide which people best reflect the views and attitudes of the community.

Some of the services that a community provides are mandated by federal and state law. Special education, "Learning Results" and the "No Child Left Behind" laws are examples of expensive state and federal educational mandates. Environmental laws governing the disposal of solid waste and setting standards for water and air quality, requirements for a minimum level of education funding, and a variety of public safety standards all affect the size of the municipal budget and therefore the property taxes that are needed.

Because property taxes can cause an undue financial hardship on both homeowners and renters, the Maine Legislature has created over the last 30 years three major property tax relief programs.

Property Tax Relief

Revenue Sharing: In the early 1970's the Legislature created the state-municipal revenue sharing program which distributes to all municipalities a share of the income and sales tax revenues that would otherwise accrue to the state treasury. 5% of the state's tax revenues are distributed in this manner, and each municipality's share is based on its population and its property tax burden. The revenue sharing money received by a municipality must be used to reduce the mill rate. Unfortunately, in recent years, the Legislature has taken significant amounts of revenue sharing for the purpose of balancing the state budget rather than for property tax relief.

Property Tax Fairness Credit. In 2013, the Legislature repealed the Maine Residents Property Tax and Rent Refund ("Circuit Breaker") Program and replaced it with the Property Tax Fairness Credit. This annual property tax credit can be claimed on the Maine Individual Income Tax Form. The credit is available to any individual who (1) was a Maine resident during any part of the tax year, (2) owned or rented a home in Maine during any part of that year and lived in that home during that year, (3) had Maine adjusted gross income of no more than the amount specified by statute, and (4) paid property taxes on that home or paid rent to live in that home during that year which exceeded Maine adjusted gross income by the percentages specified by statute. The amount of the credit varies depending on individual circumstances.

Homestead Exemption: In 1998, the Legislature responded to the increasing over-reliance on the property tax by enacting a "homestead exemption." The homestead exemption parallels Maine's long-standing property tax exemption for veterans of war. When originally enacted, the homestead exemption reduced the property tax bill of all Maine resident homeowners who apply for the exemption by subtracting \$7,000 in just value from the assessed value of their "homestead." The Maine Legislature made changes to the homestead exemption in 2003, 2005 and again in 2010. The current program provides a \$10,000 exemption for each qualifying homestead. Municipalities are reimbursed 50% of the lost property tax revenue caused by the exemption from the state's General Fund.

Summary

Property taxes are the primary source of revenue for Maine's cities and towns and are used to provide local government services. Other than excise taxes on motor vehicles and boats, municipalities are barred by Maine law from using any other form of taxation to raise revenues to fund local services. Property taxes also help finance Maine's 200-plus school districts as well as county government, which adds about \$1.2 billion to municipal budgets statewide.

While it is true that property taxes no longer reflect on a person's ability to pay, it is nonetheless also true that the amount of property taxes collected is directly controlled by the voters themselves, moreso than any state or federal taxes.

Local government is the level of government "closest to the people." It is the level of government which citizens have the greatest access to and the most control over. It is as close as we come to self-government. However, with this right to self-govern comes the responsibility to be informed and to make thoughtful decisions that are in the best interest of all the citizens in your community. Being active in municipal affairs is the responsible way to exercise this right of self-government.

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