

Property taxes in Maine generate slightly under \$943 million to fund local government services. Of the three major tax sources — income, sales and property — used to fund Maine state and local governments, property taxes comprise the biggest slice of the revenue pie.

Property taxes have been with us since colonial times when a person's wealth could be measured in the amount of property he owned. Although it is our oldest form of taxation in Maine, the property tax still remains widely misunderstood and has become a highly regressive tax because it is no longer 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, for most Maine homeowners your property tax bill is based on the value of your home.

Local assessors are required by law to "ascertain as nearly as may be the nature, amount and value as of the first day of each April of the real estate and personal property subject to be taxed..." This means that if you own property that is taxable on the 1st day of April, 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. The first way is by comparing the selling price of similar types of property. The second way is to determine how much it would take at the current price of materials and labor to replace a building, after subtracting out how much the building has depreciated. And, the third way is to evaluate 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 pro-

perty. It is also important to note that land and buildings are valued separately. Therefore, a Cape with water frontage may be assessed at a significantly higher value, because of the land's value, than an identical Cape without water frontage.

Even though the State Constitution requires that real estate be assessed at its "just value", the Maine Legislature realizing the difficulty and the costs imposed upon local governments in maintaining "just value" enacted assessing standards that municipalities must meet. One standard is that the total local valuation of property not fall below 70% of fair market value. Another standard is that the quality 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 does not meet the assessment standards. During a revaluation, all property in the municipality is inspected and assessments are adjusted to their fair market value.

The total value of taxable property in Maine is nearly \$67 billion and generates about \$943 million to fund 491 cities, towns and plantations.

How Are Property Taxes Collected?

Property tax rates are often referred to as the mil rate. Basically, the mil rate is the dollars/cents per \$1,000 of value that you will pay in property taxes. For example, if you owned a home valued at \$100,000 and your tax rate were 20 mils, then your tax bill would be \$2,000 (or $\$20 \times 100$).

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. 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 have a tax rate of 20 mils to do so ($\$2,000,000$ divided by $\$100,000,000$ equals .020).

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

The municipal assessor(s) determines how much must be raised in property taxes based on what the legislative body has approved. 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. Others have moved to collecting taxes twice and in some instances four times 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, codes 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 60 percent of the cost of local governments, the remainder comes mostly in the form of state assistance.

The biggest bite of your property tax dollar is used to fund education. The average Maine community uses almost 60 percent of its property taxes to fund education. The total statewide cost of public education, which is slightly over \$1 billion annually, is funded about equally by the State and local governments.

The level of services that a community provides is determined by the legislative body. In a municipality that has 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 at large.

Some of the services that a community provides are mandated by Federal and State law. 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 to be raised.

Property Tax Relief

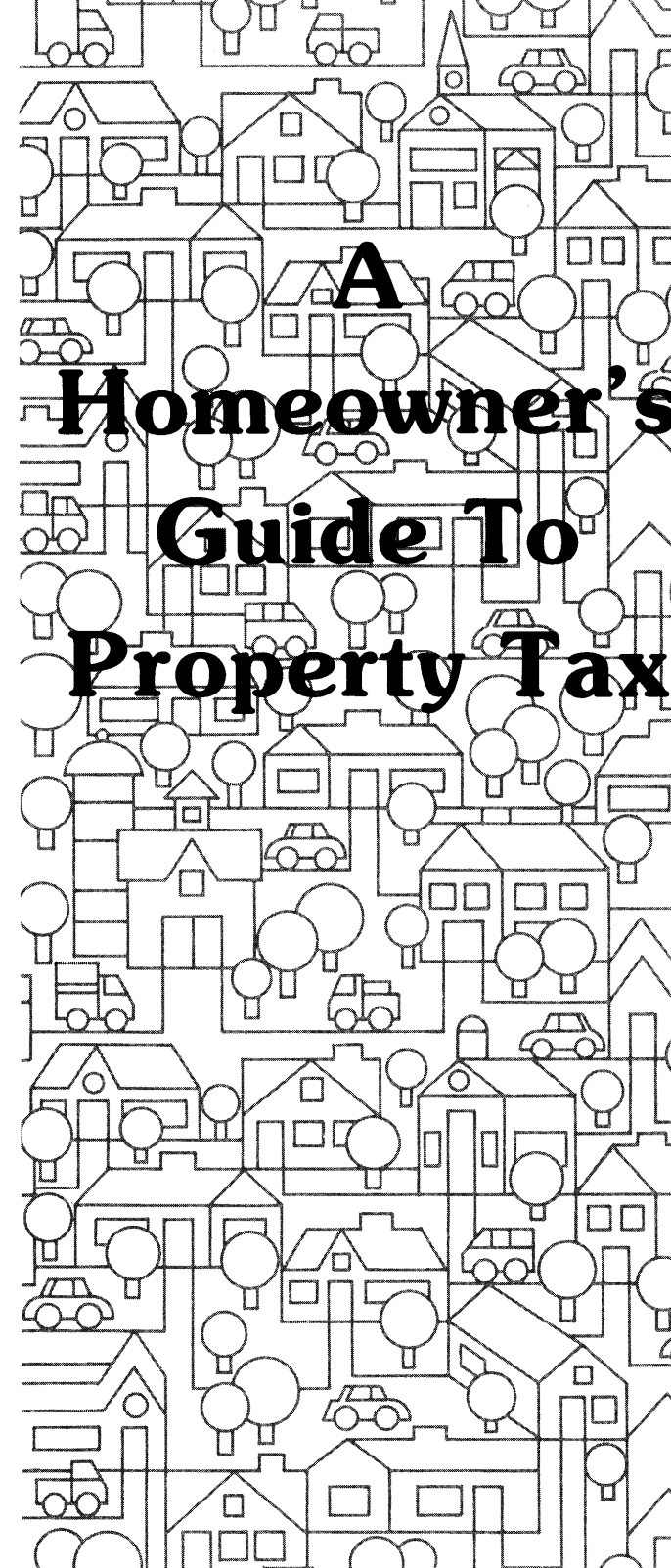
Because property taxes can cause an undue financial hardship on both homeowners and renters, the Maine Legislature has created a property tax relief program called the "Circuit Breaker." This program provides refunds to people whose property taxes exceed a certain amount of their income. It is called the "circuit breaker" program because it is intended to act like an electrical circuit breaker. Just as a circuit breaker shuts off the flow of electricity when the system becomes overloaded, the property tax circuit breaker is intended to kick in when property taxes become too much of a burden for people to pay. The program is in effect each August through December. For applications, citizens can contact their town or city office or the State Bureau of Taxation in Augusta.

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 and some user fees, such as parking, recreation and license fees, municipalities are barred by Maine law from using any other form of taxation to raise revenues to fund local services. Property taxes also fund county government, which adds about \$50 million 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 property taxes in Maine are a bargain when you look at the quantity and quality of the services that the state's local governments provide.

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 an active participant in municipal affairs is the responsible way to exercise this right of self-government.



A Homeowner's Guide To Property Tax



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