

Eligibility and Take-up for Maine Homeowner Property Tax Relief Programs

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The views expressed herein are those of the author and do not necessarily reflect the views of the state of Maine.

Property Taxes in Maine

- Relatively important source of revenue
 - 21.2% of state and local general revenue in FY 2012 (10th overall)
- Relatively large share of personal income
 - 4.5% of personal income in 2012 (6th overall)
 - Maine has highest share of homes owned for seasonal or recreational use

Circuit Breaker Program

- 1988 – 2012 (last property tax year for relief was 2011)
- *Stand-alone refund application*; application period began in August
- Refund = 50% of tax between 4% and 8% of income, 100% of tax over 8% of income
- Income = Expanded income concept, including all Social Security income
- Maximum refund = \$2,000

Circuit Breaker Participation

- Estimated eligibility for refunds with microsimulation tax model
 - Statistical match between a household survey (Census PUMS for the old model, ACS for current model) and income tax returns is the crucial component
- Eligibility estimates from PUMS data alone basically agree with microsimulation model
- Estimated that refunds were less than half of full-participation refunds and that take-up declined with income

Property Tax Fairness Credit

- Refundable income tax credit beginning in 2013
- 2013 credit= 40% of property tax above 10% of Maine Adjusted Gross income (MAGI)
- Credit max=\$300 non-elderly / \$400 elderly
- Hard cap: Ineligible if MAGI>\$40,000
- Maine Adjusted Gross income excludes all Social Security income

Property Tax Fairness Credit, 2013

- Estimate: \$34.2 million; 120,000 credits
 - *Assumed eligible who were filing an income tax return anyway would claim the credit*
- Actual: \$21.6 million; 80,000 credits
- Goal: Understand why we overestimated credit
 - Take-up among eligible
 - Eligibility rate

Property Tax Fairness Credit 2013

(\$Million)

	Forecast	Actual	Forecast Error
Homeowner:			
Would have filed anyway	20.6	10.8	9.8
Filed to claim credit	6.2	4.3	1.9
Total	26.8	15.1	11.7
Renter:			
Would have filed anyway	2.5	3.1	-0.6
Filed to claim credit	4.9	3.2	1.7
Total	7.4	6.3	1.1
All Returns	34.2	21.4	12.8

Matching Property Tax Records to Income Tax Returns

- Property tax division gathered tax rolls from municipalities, most in pdf
- Required extensive cleaning, many idiosyncratic issues with town data
- Alpha match records claiming a homestead exemption to income tax returns
- 119,341 property tax records eligible to be matched
- 91,799 matched to income tax return
 - 38,140 with MAGI \leq \$40,000

Analysis

- Measure eligibility and take-up rates for homeowners who would file an income tax return in the absence of the PTFC
 - Take-up rate = *Credit-claiming homeowners filing regardless of PTFC / Credit-eligible homeowners filing regardless of PTFC*
 - Only take-up rate that I can (mostly) observe in data
 - » Numerator must be strict subset of denominator
 - » Don't observe renters who are eligible for PTFC but don't claim
 - » Don't observe homeowners who are eligible for PTFC but don't file

Challenge: How to determine whether the taxpayer is only filing to claim the credit

- Important for estimating take-up and eligibility rates
 - If someone filing to claim the credit is included in the numerator will overstate eligibility and take-up rate
 - If credit claimant who would have filed anyway is excluded then understate eligibility and take-up rate
- Major policy changes increased the filing threshold in 2013
 - For married joint no dependents, tax liability begins at \$17,600 in 2012 and \$28,400 in 2013
 - Imputing filing status in absence of PTFC thus more uncertain

Taxpayer Samples

- 1) Imputed filer: Make best guess at who is filing to claim credit based on MAGI, whether filed 2012 return, tax payments etc.
- 2) “Payments” sample: Returns with tax liability, withholding, or estimated payments
- 3) “Liability” sample: Returns with tax liability

Imputed Filer Matched Sample Results

Matched Sample Returns

MAGI (\$thousand)	All	Credit Eligible	Claimed Credit	Sample Eligibility Rate	Forecast Eligibility Rate	Sample Take-up rate
<=0	1,159	1,154	726	99.6%	100.0%	62.9%
\$0 <= \$10	4,768	4,446	3,159	93.2%	89.2%	71.1%
\$10 <= \$20	8,295	5,327	3,632	64.2%	65.5%	68.2%
\$20 <= \$30	9,359	2,963	1,968	31.7%	39.4%	66.4%
\$30 <= \$40	9,208	1,277	802	13.9%	21.6%	62.8%
Total	32,789	15,167	10,287	46.3%	49.7%	67.8%

Income Tax Liability or Payments Sample

Matched Sample Returns

MAGI (\$thousand)	All	Credit Eligible	Claimed Credit	Sample Eligibility Rate	Forecast Eligibility Rate	Sample Take-up rate
<=0	592	591	420	99.8%	100.0%	71.1%
\$0 <= \$10	2,176	1,974	1,374	90.7%	89.2%	69.6%
\$10 <= \$20	5,762	3,466	2,349	60.2%	65.5%	67.8%
\$20 <= \$30	8,252	2,442	1,620	29.6%	39.4%	66.3%
\$30 <= \$40	8,980	1,200	746	13.4%	21.6%	62.2%
Total	25,762	9,673	6,509	*	*	67.3%

*Cannot compare the overall matched sample population to the model filer population because the matched sample restrictions skew the sample towards higher incomes. Even comparisons within income categories may be inappropriate due to composition differences in the matched sample and model (for example, lowest income will skew single in the matched sample).

Income Tax Liability Sample

Matched Sample Returns

MAGI (\$thousand)	All	Credit Eligible	Claimed Credit	Sample Eligibility Rate	Forecast Eligibility Rate	Sample Take-up rate
<=0						
\$0 <= \$10						
\$10 <= \$20	1,274	628	402	49.3%	54.0%	64.0%
\$20 <= \$30	4,086	1,123	746	27.5%	34.6%	66.4%
\$30 <= \$40	7,930	952	576	12.0%	20.5%	60.5%
Total	13,290	2,703	1,724	20.3%	29.0%	63.8%

Homeowner-filer credit estimate at take-up rate in “payments” sample

(\$million)

MAGI	Actual Credit	Model Credit	Error	Model Credit * Take-up Rate	Error if take-up correct
<=0	0.95	1.79	0.84	1.27	0.32
\$1 - \$10,000	3.50	5.02	1.52	3.49	-0.01
\$10,001-\$20,000	3.58	7.1	3.52	4.81	1.24
\$20,001-\$30,000	1.93	4.35	2.42	2.89	0.95
\$30,001-\$40,000	0.81	2.36	1.55	1.47	0.66
Total	10.77	20.62	9.85	13.93	3.16

Relationship Between Take-up Rate and Tax Return Characteristics

	Imputed Filer Sample		Tax Payments Sample	
	# eligible	Take-up Rate	# eligible	Take-up Rate
Overall	15,167	67.8%	9,673	67.3%
Paid preparer	9,389	63.2%	5,954	62.1%
Self-prepared	5,780	75.4%	3,723	75.6%
65 or older	9,275	72.7%	5,726	72.4%
Self-prepared only:				
Paper return	2,431	69.6%	1,443	70.8%
Efile return	2,775	83.5%	1,905	82.7%
Maine Ifile return	570	61.6%	375	58.4%
65 or older	3,522	78.4%	2,165	79.7%

Linear Probability Model

Self-prepared returns only

	Imputed Filer Sample	Tax Payment/Liability Sample
E-file	0.147	0.130
I-file	-0.066	-0.105
65 or older	0.083	0.099
N	5,779	3,772

Omitted categories: Paper returns, non-elderly

Includes MAGI category dummy variables

Explanation for Eligibility Overstatement

- Reporting error in ACS
 - Certain types of measurement error would cause us to overstate credit eligibility
 - Income underreporting is common in survey data
 - Needs further investigation
 - We believe aggregate property taxes in ACS is accurate based on Municipal Valuation Return data on homestead properties.
- Incorrect assignment of taxes to families
 - Property tax is a household variable, no information on who pays
- Ultimately, something to do with correlation between property tax paid and income

Explanations for Imperfect Take-up

- Imperfect information
 - Believed software and preparers would help
 - Software probably did help
 - Preparers did not
- Transaction costs
 - Small maximum credit, not worth the trouble to apply
 - Fixed costs to apply -> Credit increases, take-up increases
 - Complicated instructions for credit
- Many other examples of imperfect take-up for means tested programs (including Maine's homestead exemption)

TABLE 1. SOCIAL PROGRAMS IN THE UNITED STATES

PROGRAM	TAKE UP ¹	TARGETING ²	COMPLEXITY ²
Medicaid	73%	Medium	High
Medicare Part B ³	96%	Low	Low
Supplemental Security Income Program (SSI)	60%	High	High
Social Security Disability Insurance (DI)	No estimate	High	High
The Earned Income Tax Credit (EITC)	80%-86%	Medium	High
Temporary Assistance for Needy Families (TANF) ⁴	60%-90%	Medium	High
Housing Programs	below 50%	Medium	High
Food Stamps	69%	Medium	Medium
The Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	67%, 73%, 38%	High	High
Child Care Subsidies	40%	Medium	High

Source: Henrik Jacobsen Kleven and Wojciech Kopczuk, “Transfer Program Complexity and the Take Up of Social Benefits”, NBER Working Paper 14301, September 2008.

Takeaways

- Property tax probably less regressive than we thought under the “old view” of property tax incidence
- Take-up imperfect, even for taxpayers who have already calculated MAGI on income tax return
 - In most cases the credit calculation is straightforward, but that is not apparent from the tax form
 - Software helps
 - The elderly are more likely to claim the credit when eligible
 - Could explain drop in credit in 2014

SCHEDULE PTFC – PROPERTY TAX FAIRNESS CREDIT INSTRUCTIONS

Who is eligible?

You may qualify for a **refundable** Property Tax Fairness Credit up to \$300 (\$400 if you are 70 years of age or older) if you meet all of the following:

- You were a Maine resident during any part of the tax year;
- You owned or rented a home in Maine during any part of the tax year and lived in that home as your principal residence during the year;
- Your Maine adjusted gross income was not more than \$40,000 for the tax year;
- You paid property tax on your home (principal residence) in Maine during the tax year that is greater than 10% of your Maine adjusted gross income or you paid rent on your home (principal residence) in Maine during the tax year that is greater than 40% of your Maine adjusted gross income. **Note** that if your rent is subsidized (paid in part by the Government), you do not qualify for the Property Tax Fairness Credit **unless** you or your spouse received social security disability payments or supplemental security income disability payments during 2013.

SPECIFIC INSTRUCTIONS

Step 1. Complete Form 1040ME according to the form instructions. However, if (1) you are filing Form 1040ME only to claim the property tax fairness credit, (2) you are not filing (or will not file) a federal income tax return for 2013 and (3) you meet the criteria under A or B below, complete Maine Form 1040ME according to the instructions under A or B below, whichever applies.

A. If –

- you were a Maine resident for all of 2013; and
- you are not subject to any of the addition income modifications on Maine Form 1040ME, Schedule 1, line 1;

AND YOU MEET ONE OF THE FOLLOWING

- a. the only income you received in 2013 was social security income, social security disability income, supplemental security income, supplemental security disability income or railroad retirement income; **OR**
- b. you or your spouse, if married, were 70 years of age or older at the end of the tax year and **1)** your property tax payments on your primary residence were \$1,100 or more (or your rent paid was \$4,400 or more) and **2)** you had no more than \$1,000 in income in addition to the income shown in paragraph a above; **OR**
- c. you and your spouse, if married, were less than 70 years of age at the end of the tax year and **1)** your property tax payments on your primary residence were \$900 or more (or your rent paid was \$3,600 or more) and **2)** you had no more than \$1,500 in income in addition to the income shown in paragraph a above.

Complete Maine Form 1040ME as follows (see example later):

- fill in your name, address, social security number, telephone number and, if married, your spouse's name and social security number;
- check Box A below your address;
- enter your correct filing status on lines 3-7;
- enter your correct residency status on lines 8-11; and
- enter "0" on lines 14 and 16 and on Schedule PTFC, line 1.

Then go to **Step 2, line 2** below.

B. If you do not meet all the criteria for paragraph A above –

THEN, to calculate federal adjusted gross income for Form 1040ME, line 14, you must complete a federal income tax return for 2013, Form 1040 (through line 37), 1040A (through line 21) or 1040EZ (through line 4), whichever applies, as if you were required to file the return. Enter on Form 1040ME, line 14, the federal adjusted gross income calculated on the federal return (Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4), then complete the remainder of Form 1040ME, following the instructions for each line. **Do not** file the federal return with the Internal Revenue Service (IRS) or with Maine Revenue Services. Use the information on the return to complete your Maine return according to the instructions below. **Keep the federal return for your records.**

Note: Part-year residents must also complete Form 1040ME, Schedule NR and related Worksheet B – Income Allocation Worksheet.

You must complete Step 1 before going to Step 2.

Step 2. Complete Schedule PTFC. Enter your name and social security number as shown on Form 1040ME. Also enter your date of birth and your spouse's date of birth, if married.

Line 1. Income. Enter your Maine adjusted gross income from Form 1040ME, line 16. (Part-year residents - enter on line 1 the portion of your Maine adjusted gross income related to that part of the tax year you were a Maine resident plus any Maine-source income while you were a nonresident. To determine this amount, add Form 1040ME, Worksheet B, Column B, line 15 plus Worksheet B, Column E, line 15. Then, add or subtract, whichever the case may be, the Maine-source portion of income

modifications included in Form 1040ME, line 15.) If the amount on line 1 is more than \$40,000, stop here. You do not qualify for a Property Tax Fairness Credit.

Line 2. Property Tax. If you owned your home in Maine and lived in that home during 2013, enter the amount of property tax paid during 2013 on your house and house lot up to 10 acres. If your house is on land that is more than 10 acres, call your town or city assessor to get the tax on your house and the land, up to 10 acres. Part-year residents - enter only the property tax amounts you paid for your home in Maine during the part of the tax year you were a Maine resident. **Note: You may be asked to provide proof of the property tax paid before a refund is issued.**

- Do not use the amount of property tax assessed; enter only the amount of tax actually paid on your home during 2013.
- Do not include amounts paid for interest or special assessments.
- Do not include property taxes on property other than your primary residence.
- Do not claim any property tax paid by others. If the home is jointly owned, **enter only the property tax you paid**. You can claim the tax you paid on your home even if you have transferred ownership to someone else under a legal agreement that allows you to continue to live in the home, but you can only claim the tax on the home for as long as you live in the home.
- Do not include taxes on any part of your home or property used exclusively for business. For example, you owned a two-story building. You lived upstairs and ran a store downstairs. You can claim one-half of the property tax you paid. Do not include property taxes claimed as a business expense on your federal tax return.
- Do not include taxes on any part of your home that serves as a separate dwelling. Include only the taxes paid for the part of the home you occupied as your primary residence. For example, your primary residence is one unit located in a three-unit dwelling. You can only claim one-third of the property tax paid.

Note: If you owned a home that was on rented land or vice-versa, you can include the property tax you paid during 2013 on line 2 and the rent you paid during 2013 on line 3. For example, you owned a mobile home located in a park. Enter the property tax on your mobile home on line 2 and the lot rent you paid on line 3.

Line 3. Rent.

- **Line 3a.** Enter the total rent you paid for your home (principal residence) in Maine during 2013. If you moved during the tax year, include the rent you paid during the tax year to live in each home or apartment. Include Workfare payments received from your town used to pay your rent. Part-year residents - enter only rent amounts you paid on your home in Maine during the part of the tax year you were a Maine resident. **Note: You may be asked to provide copies of rent receipts or canceled checks before a refund is issued.**
 - Do not include mortgage payments or room and board payments. Mortgage payments and room and board payments are not rent.
 - Do not include rent that was subsidized or paid in part by a government program **unless** you received social security disability benefits or supplemental security income disability benefits during 2013. If your rent was subsidized by a government program and you did receive social security disability benefits or supplemental security income disability benefits during 2013, enter only the rent you paid.
 - Do not include rent for any part of your home that was rented out to others. For example, you share an apartment with your sister. Each of you are equally responsible for one-half of the rent. Include only the amount of rent you paid or one-half of the total rent.
 - Do not include rent for any part of your home used exclusively for business. For example, you rent a two-story building. You live in a 2nd floor apartment and run a business on the 1st floor. Claim only the portion of rent you paid for the right to live in the 2nd floor apartment.
 - Do not include rent claimed as a business expense on your federal return.
- **Lines 3b and 3c.** If you lived in public housing, received Section 8 vouchers or received any other rental assistance from the government, check "yes" on line 3b. If you or your spouse, if married, received social security disability benefits or supplemental security income disability benefits in 2013, check "yes" on line 3c. Government payments include certain Section 8 vouchers or public housing. **Note:** Renters who live in subsidized housing (rent paid in part by the government) cannot include subsidized rent on line 3a unless they received social security disability benefits or supplemental security income disability benefits in 2013.
- **Line 3e.** If the rent you entered on line 3a includes an amount for heat, utilities, furniture, snowplowing or other similar items and you know the amount paid toward the heat, utilities, furniture, snowplowing or other similar items, enter the amount on line 3e. If your landlord cannot provide the amount you paid for heat, utilities, furniture, snowplowing or other similar items, multiply the amount on line 3a by 15% (.15) and enter the result on line 3e. If the rent entered on line 3a does not include an amount paid for heat, utilities, furniture, snowplowing or other similar items, enter 0 on line 3e.
- **Line 3f.** Subtract line 3e from line 3a. The rent you paid can only include the amount paid for the right to live in your home excluding amounts paid for heat, utilities, furniture, snowplowing or other similar items.
- **Line 3g.** Multiply line 3f by 25% (.25) and enter the result on line 3g

Line 4. Benefit Base. Add lines 2 and 3g and enter the result on line 4.

See example on next page

EXAMPLE

Henry and Evie are Maine residents and own their own home in Augusta, Maine where they live full-time. During 2013, Henry and Evie received social security income of \$28,000 and received no other income during 2013 and have no income modifications on Maine Form 1040ME, Schedule 1. They also had \$500 in interest income from savings. Henry and Evie paid property tax of \$1,420 to the City of Augusta during September 2013. Henry and Evie are both under 70 years of age.

Because Henry and Evie's income is from social security and less than \$1,500 in additional income, they meet the Step 1, paragraph A criteria. Henry and Evie should complete Form 1040ME and the Property Tax Fairness Credit Worksheet as follows:

Form 1040ME, page 1

- Complete the top section by filling in your names, social security numbers, mailing address and telephone numbers as indicated below.

2013 MAINE INDIVIDUAL INCOME TAX FORM 1040ME

For tax period 1/1/2013 to 12/31/2013 or 2013 to _____
See instructions on pages 2 and 3. Print neatly in blue or black ink only.

Henry Your First Name MI
Sample Your Last Name

Evie Spouse's First Name MI
Sample Spouse's Last Name

123 ABC Drive Mailing Address (PO Box, number, street and apt. no)
Augusta ME 04330 City State ZIP Code

000-00-1234 Your Social Security Number
000-00-4321 Spouse's Social Security Number
207-123-4567 Home Phone Number
Work Phone Number

NOTE: If either spouse is deceased, enter the date of death on Form 1040ME, page 3 in the spaces provided above the signature area.

You must enter your SSN(s) below.

- Place a check mark in box A to indicate you are claiming the property tax fairness credit and have no other reason to file Form 1040ME.
- Lines 3 through 7. Enter a check mark in box 4 for 'Married filing jointly'.
- Lines 8 through 11. Enter a check mark in box 8 for 'Resident'.
- Line 14. Enter \$0.00
- Line 16. Enter \$0.00.

Property Tax Fairness Credit Worksheet

Follow the directions for Step 3 in the Property Tax Fairness Credit Worksheet instructions.

- Line 1. Enter \$0.00 (from Form 1040ME, line 16).
- Line 2. Enter \$1,420.00 (the amount of property tax paid during 2013).
- Skip line 3. No rent was paid in 2013.
- Line 4. Enter \$1,420.00 (\$1,420 + \$0).
- Line 5. Enter \$0.00 (\$0 x .10).
- Line 6. Enter \$1,420.00 (\$1,420.00 - \$0.00).
- Line 7. Enter \$568.00 (\$1,420 x .40).
- Line 8. Check the No box (neither Henry nor Evie were 70 years of age during 2013).
- Line 8a. Enter \$300.
- Line 9. Enter \$300 (the smaller of lines 7 and 8).

Form 1040ME, page 2

- Line 25d. Enter \$300.
- Line 25e. Enter \$300.
- Line 26. Enter \$300.
- Line 30. Enter \$300.
- Line 31b. Enter \$300.

Form 1040ME, page 3

Henry and Evie must each sign the return in the space provided and mail the completed Form 1040ME and Property Tax Fairness Credit Worksheet to: Maine Revenue Services, PO Box 1066, Augusta, ME 04332-1066.

**SCHEDULE PTFC
FORM 1040ME
2013**

Attachment
Sequence No. **3**

PROPERTY TAX FAIRNESS CREDIT
For MAINE RESIDENTS and PART-YEAR RESIDENTS ONLY.

Enclose with your Form 1040ME.
See instructions on pages 10-12.

For more information, visit www.maine.gov/revenue/forms.



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Name(s) as shown on Form 1040ME

Your Social Security Number

Enter your
date of birth

MM DD YYYY

If married, enter your
spouse's date of birth

MM DD YYYY

Physical location of property where you lived during 2013 (if different from your mailing address):

1. Enter your Maine adjusted gross income (from Form 1040ME, line 16). (See instructions.) 1. .00
If the amount on line 1 is more than \$40,000, stop here. You do not qualify for the Property Tax Fairness Credit. Otherwise, go to line 2 below.
2. Enter the property tax you paid on your home in 2013. (See instructions.) 2. .00
If you paid no property tax in 2013, skip to line 3a.
3. a. Enter the rent you paid on your home in 2013 (See instructions.) 3a. .00
If you paid no rent in 2013, skip to line 4.
 - b. Was your rent reduced or paid in part by the government? (See instructions.) 3b. Yes No
 - c. Did you or your spouse, if married, receive social security disability benefits or supplemental security income disability benefits in 2013? (See instructions.) 3c. Yes No
If line 3b is yes and line 3c is no, and the amount on line 2 is zero, stop here. You do not qualify for the Property Tax Fairness Credit. If both lines 3b and 3c are yes, go to line 3d.
 - d. Does the rent entered on line 3a include heat, utilities, furniture, snowplowing or similar items? .. 3d. Yes No
 - e. If line 3d is yes and you know the amount paid for heat, utilities, furniture, snowplowing or similar items, enter that amount on line 3e. If yes, and you do not know the amount paid, multiply line 3a by 15% (.15) and enter the result on line 3e. If line 3d is no, enter "0" on line 3e... 3e. .00
 - f. Line 3a minus line 3e 3f. .00
 - g. Multiply line 3f by 25% (.25) 3g. .00
 - h. Landlord's name and telephone number _____
4. Benefit Base. Add lines 2 and 3g..... 4. .00
5. Multiply line 1 by 10% (.10)..... 5. .00
 - a. Is the amount on line 4 more than the amount on line 5? 5a. Yes No
If yes, go to line 6 below. If no, stop here. You do not qualify for the Property Tax Fairness Credit.
6. Subtract line 5 from line 4 6. .00
7. Multiply line 6 by 40% (.40)..... 7. .00
8. Were you or your spouse (if married) at least 70 years of age on December 31, 2013? 8. Yes No
 - a. If yes, enter \$400. If no, enter \$300..... 8a. .00
NOTE: If you are married filing a separate return and both you and your spouse claim the property tax fairness credit on the same homestead, enter \$200 if yes or \$150 if no.
9. Enter line 7 or line 8, whichever is smaller, here and on Form 1040ME, line 25d. 9. .00