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Revenue Interim Committee
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FINAL REPORT TO THE 68TH MONTANA LEGISLATURE

HJ 36 RESIDENTIAL PROPERTY TAX STUDY FINAL REPORT



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This report is a summary of the work of the Revenue Interim Committee, specific to the Revenue Interim Committee’s 2021-2022 House Joint Resolution 36 study as outlined in the Revenue Interim Committee’s 2021-2022 work plan and House Joint Resolution 36 (2021). Members received additional information and public testimony on the subject, and this report is an effort to highlight key information and the processes followed by the Revenue Interim Committee in reaching its conclusions. To review additional information, including audio minutes and exhibits, visit the Revenue Interim Committee website: <https://leg.mt.gov/committees/interim/ric/>.

A full report, including links to the documents referenced in this print report, is available at the Revenue Interim Committee website: <https://leg.mt.gov/committees/interim/ric/>.

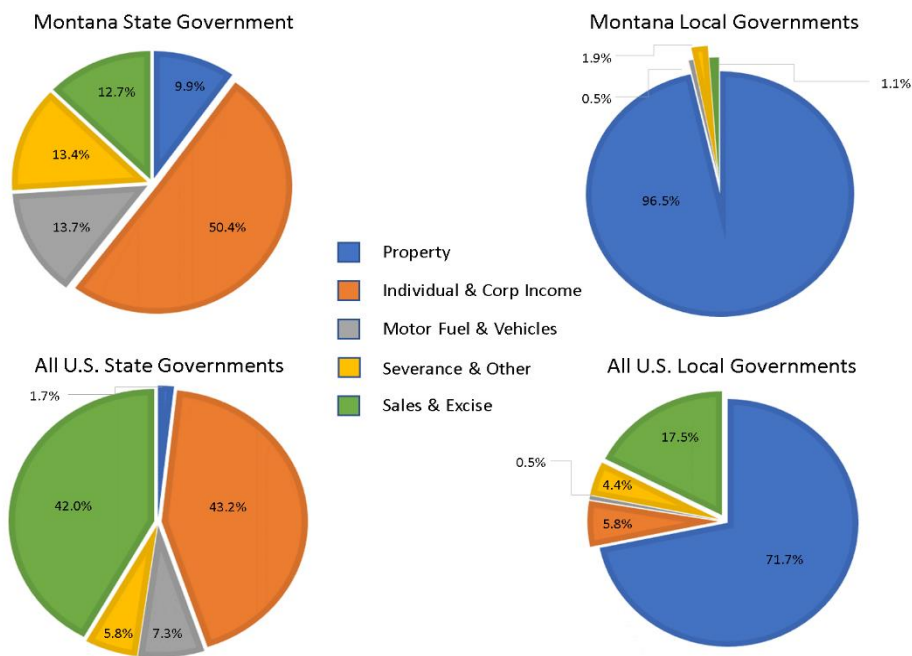
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BACKGROUND

The [House Joint Resolution 36](#) study of residential property ranked first in the 2021-2022 interim study poll. The Revenue Interim Committee devoted one-third of its staff time to the study.

Property tax revenues totaled \$1.93 billion in FY 2019. Property taxes in Montana account for 10% of state taxes compared with 2% for all states combined. At the local level, Montana property taxes make up 97% of local taxes, considerably more than the 72% share for all states.

FY 2019 State and Local Tax Revenue in Montana and U.S.



Sources: U.S. Census Bureau, Montana Department of Revenue

Under state law, the property tax is the only tax many cities and counties may levy. A limited number of localities are permitted to impose local option resort taxes and some counties levy marijuana taxes. After gaining an understanding of property tax basics, the committee compared taxes paid on residential property to those paid on other classes of property and reviewed state, local government, and school funding policies.

A Lincoln Institute of Land Policy presentation of their report, "[Property Tax Relief for Homeowners](#)," started the committee on the path to considering options for Montana. Staff provided supplementary information on existing property tax relief programs for residential property and exemptions and abatements available for nonresidential property.

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After approval for signature gathering of [Constitutional Initiative 121](#) (CI-121), a proposed constitutional amendment that would affect Montana property taxes, the committee [devoted time at two meetings](#) to understanding the possible effects of the proposed changes.

Concerns about the impacts of CI-121 reinforced consideration of property tax relief options as alternatives to CI-121. The committee considered expanding existing property tax relief programs and alternative sources of state and local funding, such as a sales tax.

FINDINGS AND RECOMMENDATIONS

The committee did not adopt findings or recommendations but did request one committee bill. The requested legislation, [LC 455](#), removes the age restriction on the elderly homeowner and renter tax credit so homeowners and renters of all ages may claim this refundable income tax credit for property taxes billed or rent-equivalent tax paid.

The credit calculation is unchanged, except that those under 62 years of age would be required to pay a 20% copayment. This is equivalent to receiving 80% of the credit available to taxpayers 62 years of age or older. The legislation also increases the maximum credit from \$1,150 to \$1,300.

PROPERTY TAX OVERVIEW

Property taxes are equal to market value times tax rate, known as taxable value, times mill levies. One mill generates \$1 for each \$1,000 in taxable value. State and local entities play a role in making property tax policy, adopting budgets, and administering the tax.



Example: \$400,000 x 1.35% x 650/1,000 = \$3,510

State Legislature – The Legislature establishes property tax policy for the state, including property classes, tax rates, valuation methods, reappraisal cycles, property tax limits, appeal procedures, and property tax assistance programs.

Taxing Jurisdictions – School districts, cities, counties, and special districts collect property taxes by setting budgets and mill levies. The state levies 95 mills for K-12 education and 6 mills for the state university system.

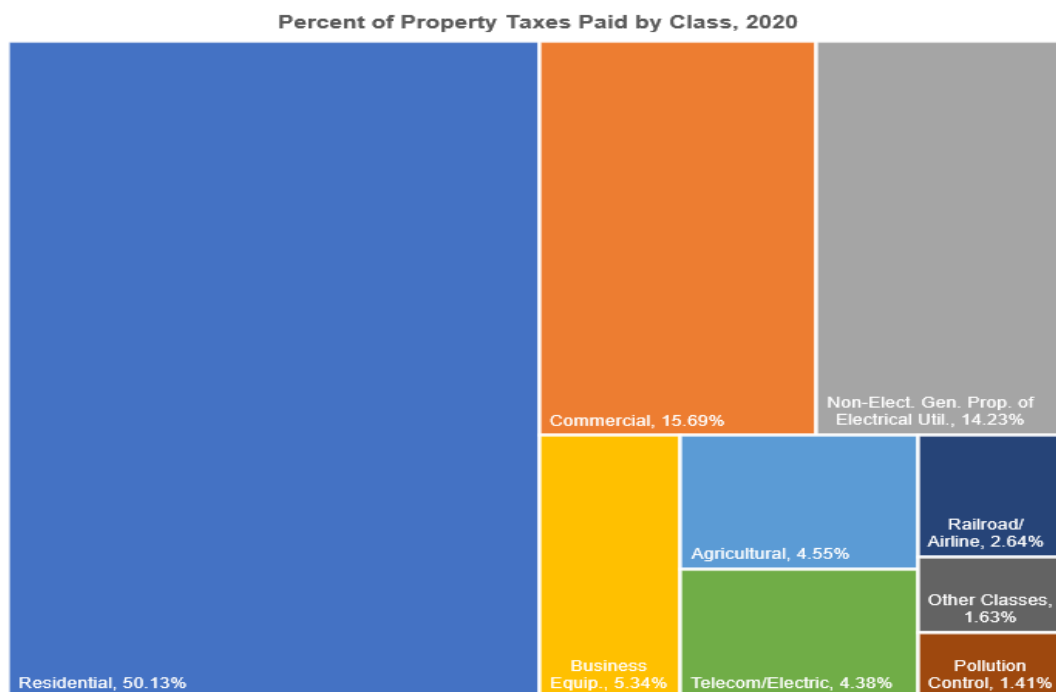
Department of Revenue – The Department of Revenue administers property tax policies adopted by the Legislature. This includes classifying property, appraising property, and providing taxable values to property owners.

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County Treasurers – County treasurers bill and collect property taxes and distribute revenue to taxing jurisdictions.

Residential Property Pays Largest Share of Property Taxes

There are 16 classes of property in Montana with tax rates that vary by class and range from 0.9% of market value to 100% of net proceeds of mines. In 2020, taxes levied on residential property accounted for 50% of the property taxes collected in the state. Taxes on commercial property and nonelectrical generating property of electric utilities each added another 15%.



Source: Department of Revenue

Residential, commercial, and agricultural property are revalued every 2 years and forest property is revalued every 6 years. All other property is valued annually.

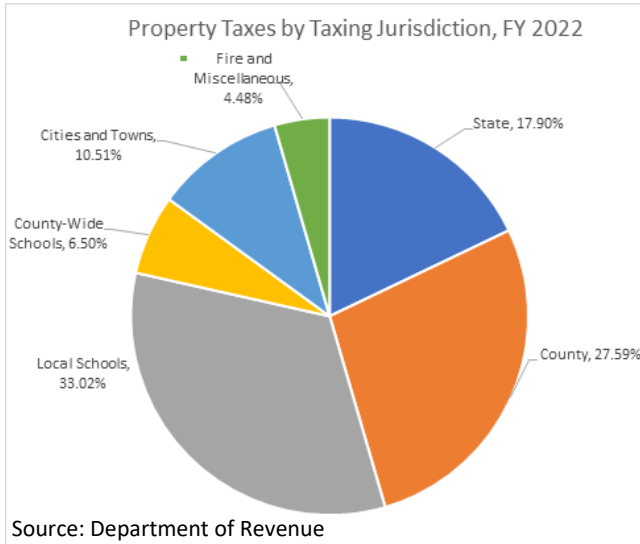
More Than Half of Montana Property Taxes Fund Schools

Of the \$1.99 billion in property tax revenue collected in FY 2022, \$1.12 billion funds K-12 education.

- Local school district property taxes totaled \$658 million, or one-third of collections.
- County-wide school levies make up another 6.5%, or \$130 million.
- Of state property tax collections, \$334 million is deposited in the general fund. Though not directly earmarked for K-12 funding, the revenue accounts for less than half of the \$881 million in general fund revenue budgeted for schools in FY 2022.

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The remaining 44% of property taxes are distributed as follows: 27.6% to counties, 10.5% to cities and towns, 4.5% to fire and miscellaneous districts, and 1.1% to higher education.



Taxing Jurisdiction	Tax Revenue	Percent of Total
Local Schools	\$657,987,701	33.02%
County	\$549,771,437	27.59%
State	\$356,591,368	17.90%
Cities and Towns	\$209,355,673	10.51%
County-Wide Schools	\$129,563,295	6.50%
Fire and Miscellaneous	\$89,350,291	4.48%
	\$1,992,619,764	100.00%

State Laws Limit Property Taxes

Cities and counties are permitted to levy mills to collect the amount of revenue raised in the prior year plus an inflation factor. The maximum mill levy is calculated using the current year's taxable value. The application of the approved mill levy to new property may result in revenue growth. The total taxable value varies based on the mix of property types, property values, and the amount of exempt property.

School districts use property taxes to fund multiple budgets based on school funding formulas adopted by the state and based on local preferences. The main budget for the district's general fund must meet a minimum level of required funding and is subject to a maximum budget limit.

Voters May Approve Property Taxes Above State Limits

State law allows cities, counties, school districts, and special districts to ask voters to collect property taxes higher than those authorized in state law and to levy property taxes to pay for bonds. These levy elections or bond issue questions appear on school, city, or county election ballots.

Property Tax Assistance Programs

Montana has four property tax assistance programs for residential taxpayers: two income-based homestead credits, a circuit breaker, and an exemption for high-value land. All programs require the claimant to live in the residence for at least 6 months of the claim year.

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Property Tax Assistance Programs

Overview and Calculation of Relief		Use of Program	State Revenue Impact	Local Tax Shifts
Property Tax Assistance Program (PTAP)	<ul style="list-style-type: none"> Reduction on the first \$200,000 of appraised value of a primary residence to 20%, 50%, or 70% of value, based on income 2022 income limits: \$23,385 single, \$31,181 married/HOH Requires occupancy for 7 months of the year 	TY 2021: <ul style="list-style-type: none"> 22,474 claimants had reduction in TV of \$29.076 million Benefit to claimants of \$18.559 million (\$826 average) 	-\$2.954 million	\$15.605 million
Disabled American Veterans Program (DAV)	<ul style="list-style-type: none"> Appraised value of a primary residence is reduced to 0%, 20%, 30%, or 50% of value, based on income 2022 income limits: \$54,067 single, \$62,385 married/HOH, \$47,136 surviving spouse Requires occupancy for 7 months of the year 	TY 2021: <ul style="list-style-type: none"> 2,960 claimants had reduction in TV of \$9.361 million Benefit to claimants of \$5.729 million (\$1,936 average) 	-\$950,985	\$4.779 million
Elderly Homeowner & Renter Credit (2EC)	<ul style="list-style-type: none"> Refundable income tax credit of up to \$1,150 for property taxes paid or rent-equivalent property taxes (15% of gross rent) by a taxpayer 62 years of age or older with household income below \$45,000 Requires residence in Montana for 9 months of the year (6 months as an owner or renter) Calculation: gross household income less \$12,600 and less an income reduction Credit phases out for gross household incomes above \$35,000 	TY 2020: <ul style="list-style-type: none"> 14,634 claimants received \$7.847 million in credits (\$536 average) 	-\$7.847 million	None
Intangible Land Value Property Exemption (LVAP)	<ul style="list-style-type: none"> Exemption for up to 5 acres of land value that is 150% or more higher than the value of the primary residence and improvements Requires occupancy for 7 months of the year Land must be owned by family for 30 consecutive years 	TY 2021: <ul style="list-style-type: none"> 151 claimants had exempt land value of \$663,594 Benefit to claimants of \$349,013 (\$2,311 average) 	-\$67,081	\$281,932

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Property Tax Abatements

Property tax abatements are generally temporary reductions in taxable value for a purpose specified in state law. The [abatements](#) vary in who grants the abatement - the state or a local government - and whether the abatement applies to all property taxes levied against the property or only certain mill levies. Because abatements are often granted locally, usage and fiscal impact data is limited.

Exempt Property

The Legislature provides exemptions from property taxes for a variety of property types in [Title 15, chapter 6, part 2, MCA](#). Most exemptions require ownership and use of the property for the exempt purpose. Exempt properties may still be subject to special assessments and fees.

The following table prepared by the department estimates the value of exempt property, state revenue losses, and local tax shifts.

TY 2021 Estimated Tax Expenditures for Generally Exempt Property				
Exemption Type	Properties	Market Value	Tax Shift	Tax Expenditure
Governmental Exemptions	31,871	11,562,339,472	80,911,312	15,473,551
Non-Profit Health Care	488	1,694,535,556	19,379,510	3,256,262
Religious Exemptions	3,648	1,638,573,474	17,157,081	3,075,597
Charitable Exemptions	1,073	685,310,095	7,294,932	1,281,103
Educational Exemptions	324	570,108,641	6,264,439	1,084,860
Low Income Housing	210	456,090,066	5,293,799	858,603
Developmentally Disabled Org/Mentally Impaired	320	149,690,276	1,657,354	268,377
Community Service Building/Fraternal	368	141,160,409	1,527,109	269,430
Low Value Mobile Home	17,028	107,427,912	753,996	147,281
Retired/Aged/Chronically Ill	49	98,873,903	1,231,733	189,226
Art Galleries/Observatories/Zoos/Museums	101	63,347,874	624,861	119,533
Cemetery, Mausoleums, Crematories	149	44,950,030	512,401	85,669
Veteran's Clubhouse	89	20,731,023	228,140	39,246
Non-Profit Water Association	77	10,029,316	86,313	18,269
Non-Profit International Athletic Facility	3	6,479,430	78,298	12,454
Natural Disaster	49	3,729,157	23,263	5,146
Horticulture/Agricultural Societies	2	3,207,301	28,700	6,123
Historic Abatement	3	301,530	3,052	576
Missing	3,917	\$174,869,311	\$1,605,998	\$299,960
Total	59,769	\$17,431,754,776	\$144,662,291	\$26,491,266

Source: Department of Revenue

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PROPERTY TAX RELIEF OPTIONS

The committee considered two general options for providing property tax relief: expanding or revising existing property tax assistance programs or finding an alternative source of revenue to replace a portion of property tax revenue.

Revising Existing Property Tax Relief Programs

The committee [reviewed policy options](#) for revising the property tax assistance program (PTAP) and expanding the elderly homeowner and renter credit.

Property Tax Assistance Program

The property tax assistance program policy options included increasing the maximum market value to which the program applies and increasing the income limits. The committee declined to request legislation to revise the property tax assistance program.

Elderly Homeowner and Renter Credit

The committee considered four options for expanding the elderly homeowner and renter credit to taxpayers under 62 years of age. The option chosen as committee-introduced legislation increases the maximum credit available to all claimants to \$1,300 and requires a 20% copayment for claimants under 62 years of age.

Other Revenue Sources

Discussion of alternative revenue sources focused on a [statewide sales tax](#). Department of Revenue [estimates](#) for a statewide sales tax modeled after South Dakota's suggest that Montana could raise more than \$300 million for each 1% of sales tax levied. South Dakota levies a broad-based sales tax that includes taxes on many goods and services.

The committee did not take action beyond requesting an estimate of revenue from a statewide sales tax.

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APPENDIX A: REVENUE INTERIM COMMITTEE MEMBERS

Before the close of each legislative session, the House and Senate leadership appoint lawmakers to interim committees. The members of the Revenue Interim Committee, like most other interim committees, serve one 20-month term. Members who are reelected to the Legislature, subject to overall term limits and if appointed, may serve again on an interim committee. This information is included in order to comply with 2-15-155, MCA.

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