

# Taxable Value Neutral Rates Under Homestead Regime

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# Statutory Requirements

- Section 15-7-111(4) states that “the department shall provide the revenue interim committee with a report...of tax rates for the upcoming reappraisal cycle that will result in taxable value neutrality for each property class.”
- SB 237 from the 2025 session requires the committee to make a recommendation to the legislature for or against adopting the taxable value neutral rates
- Clarification: Historically, we have presented taxable value neutral rates for classes three, four, and ten only. Does RIC want the rates for other classes?

# TY 2025 Reappraisal Process for Residential Property

- TY 2024 taxable value: \$2.843 billion
- TY 2024 market value: \$216.297 billion
- TY 2024 effective tax rate: 1.31%
- TY 2024 adjusted taxable value: \$2.92 billion
- TY 2025 estimated market value: \$262.69 billion
- TY 2025 taxable value neutral rate:
  - $\$2.92 \text{ billion} = \$262.69 \text{ billion}(TR)$
  - $TR = \$2.92 \text{ billion} / \$262.69 \text{ billion} \approx 1.11\%$
- One rate each for residential property, commercial property, agricultural land, and forest land
- TY 2022 to TY 2025 (two cycle TV neutral rate) = 0.76%

# Changes from Homestead Bill

- From two subclasses within class 4 to nine:
  - Primary homes less than or equal to the median
  - Primary homes from the median to two times the median
  - Primary homes from two times the median to four times the median
  - Primary homes greater than or equal to four times the median
  - Residential property associated with agricultural land
  - Long-term rentals
  - All other residential property
  - Commercial property less than six times the median
  - Commercial property greater than or equal to six times the median

# Option #1

- Calculate a separate taxable value neutral rate for each subclass
- All nine subclasses would be calculated separately
- Each subclass is taxable value neutral independently – if one subclass grows faster than the others the tax rate cut is captured entirely within that subclass
- Base equation:  $SubclassTV26 = SubclassMV27(TR)$
- Pros
  - Similar to current process
  - Relatively simple
- Cons
  - Original relative differences between subclasses will gradually come undone as each rate is calculated separately every two years
  - Nine total calculations, seven for residential and two for commercial

# Option #1 Example

- Assumptions:
  - TY 2026 residential market value: \$250 billion
  - TY 2026 residential taxable value: \$3.305 billion
  - 10% market value growth for most subclasses; 15% growth for Tier 4 and long-term rental market value
  - Base equation:  $SubclassTV26 = SubclassMV27(TR)$
- Tier 1: \$475 million = \$68.75 billion( $T1TR$ );  $T1TR \approx 0.69\%$
- Tier 2: \$225 million = \$27.5 billion( $T2TR$ );  $T2TR \approx 0.82\%$
- Tier 3: \$165 million = \$16.5 billion( $T3TR$ );  $T3TR \approx 1.00\%$
- Tier 4: \$190 million = \$11.5 billion( $T4TR$ );  $T4TR \approx 1.65\%$
- Ag-related: \$202.5 million = \$16.5 billion( $ARTR$ );  $ARTR \approx 1.23\%$
- Long-term rentals: \$385 million = \$40.25 billion( $LTRTR$ );  $LTRTR \approx 0.96\%$
- All Other Residential: \$1.663 billion = \$96.25 billion( $AOTR$ );  $AOTR \approx 1.73\%$

## Option #2 (DOR proposal)

- Maintain multiples between subclasses
  - The current base tax rate for primary residential property is 0.76%
  - Tier 2 is currently 0.90%, which is 1.184 times the base rate
  - Tier 3 is 1.10%, or 1.447 times the base
  - Tier 4 is 1.9%, or 2.5 times the base
  - Ag-related residential property is taxed at 1.35%, or 1.776 times the base
  - The long-term rental tax rate is 1.10%, 1.447 times the base (same as tier 3)
  - The tax rate on all other residential property is 1.9%, or 2.5 times the base (same as tier 4)
  - The base rate for commercial property is 1.5%, tier 2 is 1.9% or 1.267 times the base
- Subclasses share taxable value neutrality – if one subclass grows faster than the others the tax rate cut is spread across all subclasses
- Algebraic solution for residential and commercial rates
  - $ResidentialTV26 = Tier1MV27(BR) + Tier2MV27(1.184)(BR) + Tier3MV27(1.447)(BR) + Tier4MV27(2.5)(BR) + ARMV27(1.776)(BR) + LTRMV27(1.447)(BR) + AOMV27(2.5)(BR)$

# Option #2 (DOR proposal)

- Pros
  - Two total calculations, one for residential and one for commercial
  - Maintains the relative difference between subclasses
- Cons
  - More complicated



# Option #2 Example

- Assumptions:
  - TY 2026 residential market value: \$250 billion
  - TY 2026 residential taxable value: \$3.305 billion
  - 10% market value growth for most subclasses; 15% growth for Tier 4 and long-term rental market value

\$3.305 billion

= \$68.75 billion(BR) + \$27.5 billion(1.184)(BR) + \$16.5 billion(1.447)(BR) + \$11.5 billion(2.5)(BR) + \$16.5 billion(1.776)(BR) + \$40.25 billion(1.447)(BR) + \$96.25 billion(2.5)(BR)

\$3.305 billion

= \$68.75 billion(BR) + \$32.56 billion(BR) + \$23.876 billion(BR) + \$28.75 billion(BR) + \$29.304 billion(BR) + \$58.242 billion(BR) + \$240.625 billion(BR)

\$3.305 billion = \$482.107 billion(BR)

BR = \$3.305 billion/\$482.107 billion = .00686 ≈ 0.69%

| Subclass   | Multiple | Tax Rate |
|------------|----------|----------|
| Tier 1     | 1.000    | 0.69%    |
| Tier 2     | 1.184    | 0.81%    |
| Tier 3     | 1.447    | 0.99%    |
| Tier 4     | 2.500    | 1.71%    |
| Ag-related | 1.776    | 1.22%    |
| LTR        | 1.447    | 0.99%    |
| All Other  | 2.500    | 1.71%    |

# Option #3

- Revert to a single tax rate, one for residential and one for commercial
- Divide estimated TY 2027 market value by TY 2026 taxable value under homestead regime for a single taxable value neutral rate
- Pros
  - Simple
  - Useful if the legislature is considering reverting to a single rate
- Cons
  - Useful only if the legislature is considering reverting to a single rate

# Option #3 Example

- Assumptions:
  - TY 2026 residential market value: \$250 billion
  - TY 2026 residential taxable value: \$3.305 billion
  - 10% market value growth for most subclasses; 15% growth for Tier 4 and long-term rental market value

$$\text{\$3.305 billion} = \text{\$277.25 billion}(\text{ResRate})$$

$$\text{ResRate} = \text{\$3.305 billion} / \text{\$277.25 billion} = .01192 \approx 1.19\%$$

# Option #4

- Revert to a single tax rate with homestead exemption
- One rate each for primary homes, other residential, and commercial
- Divide estimated TY 2027 market value by TY 2026 taxable value for each subclass
- Pros
  - Simple
  - Useful if the legislature is considering reverting to a single rate with a homestead exemption
- Cons
  - Useful only if the legislature is considering reverting to a single rate with a homestead exemption

# Option #4 Example

- Assumptions:
  - TY 2026 residential market value: \$250 billion
  - TY 2026 residential taxable value: \$3.305 billion
  - 10% market value growth for most subclasses; 15% growth for Tier 4 and long-term rental market value
- *Primary Homes: \$1.055 billion = \$124.25 billion(PrimaryRate); PrimaryRate = .00849  $\approx$  0.85%*
- *All Other Residential: \$2.25 billion = \$153 billion(AllOtherRate); AllOtherRate = .01471  $\approx$  1.47%*

# Comparison

| Subclass   | Tax Rate |           |           |           |           | Multiple of Tier 1 Rate |           |           |           |           |
|------------|----------|-----------|-----------|-----------|-----------|-------------------------|-----------|-----------|-----------|-----------|
|            | Original | Option #1 | Option #2 | Option #3 | Option #4 | Original                | Option #1 | Option #2 | Option #3 | Option #4 |
| Tier 1     | 0.76%    | 0.69%     | 0.69%     | 1.19%     | 0.85%     | 1.000                   | 1.000     | 1.000     | 1.000     | 1.000     |
| Tier 2     | 0.90%    | 0.82%     | 0.81%     | 1.19%     | 0.85%     | 1.184                   | 1.184     | 1.184     | 1.000     | 1.000     |
| Tier 3     | 1.10%    | 1.00%     | 0.99%     | 1.19%     | 0.85%     | 1.447                   | 1.447     | 1.447     | 1.000     | 1.000     |
| Tier 4     | 1.90%    | 1.65%     | 1.71%     | 1.19%     | 0.85%     | 2.500                   | 2.391     | 2.500     | 1.000     | 1.000     |
| Ag-related | 1.35%    | 1.23%     | 1.22%     | 1.19%     | 1.47%     | 1.776                   | 1.776     | 1.776     | 1.000     | 1.729     |
| LTR        | 1.10%    | 0.96%     | 0.99%     | 1.19%     | 1.47%     | 1.447                   | 1.384     | 1.447     | 1.000     | 1.729     |
| All Other  | 1.90%    | 1.73%     | 1.71%     | 1.19%     | 1.47%     | 2.500                   | 2.500     | 2.500     | 1.000     | 1.729     |

# Remember

- Taxable value neutral does not mean tax neutral
- Taxable value neutral rates are not recommendations from the Department

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