

Taxable Value Neutral Rates Under Homestead Regime

Jared Isom, Tax Policy and Research



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 \text{ million} = \68.75 billion ; $(T1TR)$; $T1TR \approx 0.69\%$
- Tier 2: $\$225 \text{ million} = \27.5 billion ; $(T2TR)$; $T2TR \approx 0.82\%$
- Tier 3: $\$165 \text{ million} = \16.5 billion ; $(T3TR)$; $T3TR \approx 1.00\%$
- Tier 4: $\$190 \text{ million} = \11.5 billion ; $(T4TR)$; $T4TR \approx 1.65\%$
- Ag-related: $\$202.5 \text{ million} = \16.5 billion ; $(ARTR)$; $ARTR \approx 1.23\%$
- Long-term rentals: $\$385 \text{ million} = \40.25 billion ; $(LTRTR)$; $LTRTR \approx 0.96\%$
- All Other Residential: $\$1.663 \text{ 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

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

\$3.305 billion

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

$\$3.305 \text{ billion} = \$482.107 \text{ billion}(BR)$

$BR = \$3.305 \text{ billion}/\$482.107 \text{ billion} = .00686 \approx 0.69\%$

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

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

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

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*: $\$1.055 \text{ billion} = \$124.25 \text{ billion}(\text{PrimaryRate})$; $\text{PrimaryRate} = .00849 \approx 0.85\%$
- *All Other Residential*: $\$2.25 \text{ billion} = \$153 \text{ billion}(\text{AllOtherRate})$; $\text{AllOtherRate} = .01471 \approx 1.47\%$

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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