Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0174		**Title:**	Provide for a property tax freeze for Montanans age 65 or older or disabled
Primary Sponsor:	Moore, David (Doc)		**Status:**	As Introduced

- ☑ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$667,571	$557,968	$567,931	$578,071
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	($272,885)	($551,228)
State Special Revenue	$0	$0	($17,080)	($34,502)
Net Impact-General Fund Balance:	($667,571)	($557,968)	($840,816)	($1,129,299)

Description of fiscal impact: This bill freezes taxable market value for qualifying applicants and residences by providing property tax reductions for qualifying applicants. These tax reductions reduce state revenue and shift tax obligations to other property taxpayers.

FISCAL ANALYSIS

Assumptions:

1. This bill is effective January 1, 2014 and provides for an initial application for the taxable value freeze on or before April 15, 2014, which would affect the taxable value of property and taxes on property beginning January 2015. It would affect fiscal year 2016 revenue.
2. This bill freezes the taxable value of a taxpayer's residence upon application. Qualified applicants must be age 65 or older or disabled and have a household income of less than $50,000 if the household is a single-member household or less than $75,000 if the household is a multiple-member household. Qualified applicants must be the owner of the qualified residence and must have owned the residence for at least 3 years and resided in the residence for at least 7 months of each of those 3 years and may not owe any outstanding property taxes, fees, or penalties. This program does not apply to residences with a market value

of $250,000 or more unless the applicant received the freeze in a preceding year. This program does not apply to new construction, expansion, or remodeling that results in an increase in the appraised value of the residence or the purchase of a new residence, if the previously owned residence was eligible for the property tax freeze.

3. The Department of Revenue (DOR) personal income tax master file was used to estimate how many people would be eligible for this property tax assistance program. Totals for taxpayers who had either claimed additional exemptions for being over 65 years old or who claimed positive income for disability retirement income and were under 65 were first calculated. This population was then further filtered based on total income. According to the tax master file, 62,559 full-rear resident tax filers would have qualified for this program had it been in existence in TY 2011. This analysis assumes 62,559 qualified applicants would use this program each year. This analysis assumes no growth in applicants, i.e. applicants move in and out of the program at the same rate. If the population affected by the bill changed at a different level, the estimated fiscal impact would change.
4. The DOR property assessment database was used to estimate the median 2014 residential property value, which is equal to the median 2008 residential full reappraisal value. According to the database, the median 2014 residential property value is approximately $173,800. This analysis assumes all qualified applicants own a qualified residence with a 2014 market value of $173,800.
5. Current statute provides a 47% exemption and a tax rate of 2.47% in 2014. After the application of the 2014 exemption and tax rate, the taxable value would be $2,275.

Calculating Taxable Value	
Tax Year	2014
2014 Market Value (Median)	$173,800
Exemption Percent	47.0%
Exemption Amount	$81,686
Taxable Market Value	$92,114
Percent Subject to Tax	2.47%
Taxable Value	$2,275

6. This analysis assumes that the taxable values of these residences grow by 2% per year. If this growth were greater or less than 2% per year, the estimated fiscal impact would change.

Taxable Value Growth (SJR2 Based Rate)					
Tax Year	2014	2015	2016	2017	2018
Taxable Value Growth Rate (SJR2)	0%	2%	2%	2%	2%
Median Home Taxable Value	$2,275	$2,321	$2,367	$2,414	$2,463

7. Assuming this bill goes into effect January 2014, and qualified taxpayers apply to the program on or before April 15, 2014, the taxable value of the qualified residence would be frozen at the tax year 2014 value, beginning in tax year 2015. This would provide a taxable value reduction of $46 in tax year 2015 and then increase according to the following schedule.

Taxable Value Reduction Per Qualified Residence					
Tax Year	2014	2015	2016	2017	2018
Taxable Value Freeze in TY 2015	$2,275	$2,275	$2,275	$2,275	$2,275
Taxable Value Reduction	$0	$46	$92	$139	$188

8. The average mills assessed on residential property in 2012 is 572.853. Assuming these mills remain constant throughout the six-year phase-in, the tax reduction per applicable taxpayer would be $26 in tax year 2015 and then increase according to the following schedule.

Tax Reduction Per Applicable Taxpayer					
Tax Year	2014	2015	2016	2017	2018
Average Residential Millage Rate	572.853	572.853	572.853	572.853	572.853
Tax Reduction Per Applicable Taxpayer	$0	$26	$53	$80	$107

9. Assuming 62,559 taxpayers use this program each year, the total tax reduction to these taxpayers in tax year 2015 would be $1,630,743, and increase according to the following schedule.

Total Tax Reduction to Applicable Taxpayers					
Tax Year	2014	2015	2016	2017	2018
Applicable Taxpayers	62,559	62,559	62,559	62,559	62,559
Total Tax Reduction	$0	$1,630,743	$3,294,101	$4,990,727	$6,721,284

10. Assuming average state and vo-tech mills of 95.86, this bill would reduce general fund revenue in tax year 2015 (FY 16), by $272,885 and increase according to the following schedule.

Loss in State General Fund Revenue					
Tax Year	2014	2015	2016	2017	2018
Fiscal Year	2015	2016	2017	2018	2019
State Mills (95.86)	95.86	95.86	95.86	95.86	95.86
Loss in State General Fund Revenue	$0	$272,885	$551,228	$835,138	$1,124,725

11. This bill would reduce state special revenue used to support the university system (6 mills) in tax year 2015 (FY 16), by $17,080 and increase according to the following schedule.

Loss in State Special Revenue					
Tax Year	2014	2015	2016	2017	2018
Fiscal Year	2015	2016	2017	2018	2019
State Special Revenue Mills (6.00)	6.00	6.00	6.00	6.00	6.00
Loss in State Special Revenue	$0	$17,080	$34,502	$52,272	$70,398

12. The total loss in state revenue in tax year 2015 (FY 16), would be $289,965 and increase according to the following schedule.

Total Loss in State Revenue					
Tax Year	2014	2015	2016	2017	2018
Fiscal Year	2015	2016	2017	2018	2019
Total Loss To State Revenue	$0	$289,965	$585,730	$887,410	$1,195,123

13. Revenue requirements of local governments are subject to 15-10-420, MCA, which provides that local government mills will shift up in response to the reductions in taxable value provided for by this bill, effectively shifting the tax burden from qualified applicants to other property taxpayers. In tax year 2015 (FY 16), this bill shifts $1,340,778 in tax obligation from qualified applicants to other taxpayers. This amount would increase according to the following schedule.

Total Tax Shift to Other Taxpayers					
Tax Year	2014	2015	2016	2017	2018
Fiscal Year	2015	2016	2017	2018	2019
Total Tax Shift to Other Taxpayers	$0	$1,340,778	$2,708,371	$4,103,317	$5,526,161

14. The department estimates implementing this bill will require changes to the property taxation database costing $71,775 in FY 2014.
15. The department estimates implementing this bill will require additional contracted labor to collect, separate, and examine applications filed with annual income tax returns costing $12,740 annually.
16. The department estimates implementing this bill will require an additional 12.00 FTE to review applications costing approximately: $583,056 in FY 2014, $545,228 in FY 2015, $555,191 in FY 2016, and $565,331 in FY 2017.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
FTE	12.00	12.00	12.00	12.00
Expenditures:				
Personal Services	$461,564	$461,564	$470,267	$479,147
Operating Expenses	$164,279	$96,404	$97,664	$98,924
Equipment	$41,728	$0	$0	$0
TOTAL Expenditures	$667,571	$557,968	$567,931	$578,071
Funding of Expenditures:				
General Fund (01)	$667,571	$557,968	$567,931	$578,071
TOTAL Funding of Exp.	$667,571	$557,968	$567,931	$578,071
Revenues:				
General Fund (01)	$0	$0	($272,885)	($551,228)
State Special Revenue (02)	$0	$0	($17,080)	($34,502)
TOTAL Revenues	$0	$0	($289,965)	($585,730)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($667,571)	($557,968)	($840,816)	($1,129,299)
State Special Revenue (02)	$0	$0	($17,080)	($34,502)

Effect on County or Other Local Revenues or Expenditures:

1. 15-10-420, MCA, provides that the revenue that would be forgone due to the taxable value freeze provided for by this bill is paid by other property taxpayers.

Long-Term Impacts:

1. This bill interacts with the phasing-in of residential market values per 15-7-111, MCA, and residential property appreciation rates in a manner that causes the bill's fiscal impact to grow over time.

Technical Notes:

1. The department has no current method of tracking how long an applicant has resided in a residence.
2. The bill's effective date and application process applies to property taxes billed after the applicability date.
3. A claimant's ineligibility resulting from new construction, expansion, remodeling, or purchase of a new residence may be difficult to track and therefore enforce.
4. The department recommends the application be mailed separately from income tax returns, as co-mingling the return and application results in additional cost to the department and potential loss of applications. Separate mailings would reduce the administration costs to implement by $12,740 annually.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*