



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2015 Biennium

<b>Bill #</b>	SB0287	<b>Title:</b>	Replace residential property tax assistance with property tax circuit breaker
<b>Primary Sponsor:</b>	Barrett, Dick	<b>Status:</b>	As Introduced

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|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget        | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<b>Expenditures:</b>				
General Fund	(\$13,346)	\$135,338	\$123,993	\$131,749
<b>Revenue:</b>				
General Fund	(\$15,064,663)	(\$15,331,663)	(\$15,777,663)	(\$16,114,663)
State Special Revenue	(\$580,000)	(\$642,000)	(\$669,000)	(\$690,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$15,051,317)</u>	<u>(\$15,467,001)</u>	<u>(\$15,901,656)</u>	<u>(\$16,246,412)</u>

**Description of fiscal impact:** This bill creates a single tax credit for property taxes based on property taxes paid and the taxpayer's income. The bill replaces several property tax assistance programs including the elderly homeowner/renter credit, the extended property tax assistance program (EPTAP), and the property tax assistance program (PTAP). Taxpayers that qualify for the Disabled American Veterans (DAV) property tax assistance program have the option of continuing to use the DAV program or using the proposed credit. Homeowners would receive property tax credits, and renters would receive income tax credits based on presumptive property tax paid on their rent. The bill would reduce individual income tax revenue (general fund) and reduce state property tax revenue (general fund and state special revenue). There would be administrative costs to implement the program. The net effect is estimated to be approximately \$15 million in FY 2014 and will grow in subsequent years.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

#### *Property Tax credits for Homeowners*

1. This bill will create a credit that is comparable to the circuit breaker credit but is administered as a refundable income tax credit.

2. SB 287 provides a property tax credit, equal to 85% of the previous year’s property taxes minus an increasing percentage of the homeowner’s current year income (the percentage is between 2% and 10% for incomes between \$0 and \$100,000): Credit = (85% \* property tax) – (an increasing percentage of current year’s income (0.0000008%)). Implicit in the formula is that for a given amount of property taxes (home value), as a homeowner’s income increases, the amount of the credit decreases.
3. The department estimates approximately 53,365 of the 278,008 (19.2%) owner occupied households in Montana would be eligible for this credit. Using tax returns, census data, and estimates based on the 2008 property tax rebate filings, the department calculates \$58,205,874 in owner tax credits could be claimed in FY 2014, which is 4.33% of the total property taxes paid in FY 2013.
4. The credit amount is reported to the counties and the property tax bill is lowered by an amount equal to the circuit breaker tax credit.
5. Section 6 of the bill allows local jurisdictions to change their mills under the provisions of 15-10-420, MCA, to fund the circuit breaker credit that is applied to owner occupied homes. For local governments and schools, the credits imply a tax shift from credit recipients to all other property taxpayers. Roughly 4.33% of all property taxes will be shifted in part to all other taxpayers as credit recipients bear some of the marginal costs as does the general fund. This would hold local jurisdictions tax receipts whole.
6. State mills do not float to offset the revenue reduction. The statewide school equalization mill levies and the university 6 mill levy would be reduced by 4.33% relative to the SJ 2 baseline. The distribution of taxes is presented in the table below:

Taxing Authority	FY 2013 Taxes Paid	Taxes Paid / Total Taxes Paid	SB 287 Credit	SB 287 Credit / Total Taxes Paid	Share of Tax	SB 287 Credit Payment Method
Local Governments & Schools	\$1,094,527,271	81.40%	\$47,382,205	3.52%	4.33%	Tax Shift
General Fund (Includes Vo-Tech)	\$235,247,407	17.50%	\$10,183,886	0.76%	4.33%	Revenue Reduction
University 6 Mill	\$14,778,340	1.10%	\$639,756	0.05%	4.33%	Revenue Reduction
<b>Total</b>	<b>\$1,344,553,018</b>	<b>100.00%</b>	<b>\$58,205,847</b>	<b>4.33%</b>		

7. Based on the SJR 2 property tax estimates (net of non-levy revenues), the 4.33% reductions due to SB 287 are projected as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
General Fund Property Tax Revenue (millions \$)	\$246.621	\$254.664	\$262.969	\$271.545
Minus General Fund Non-levy Revenue	\$8.933	\$9.627	\$10.375	\$11.181
Statewide General Fund Mill levy Revenue	\$237.688	\$245.037	\$252.594	\$260.365
SB 287 reduction (4.33%)	<u>(\$10.292)</u>	<u>(\$10.610)</u>	<u>(\$10.937)</u>	<u>(\$11.274)</u>

8. The university 6 mill revenue reductions are estimated based on the SJR 2 revenue (net of non-levy revenues) and the 4.33% reductions due to SB 287 and are follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
University 6 mill Revenue (millions \$)	\$16.535	\$16.989	\$17.455	\$17.935
Minus 6 mill Non-levy Revenue	\$1.051	\$1.050	\$1.049	\$1.048
Statewide University Mill levy Revenue	\$15.484	\$15.939	\$16.406	\$16.887
SB 287 reduction (4.33%)	<u>(\$0.670)</u>	<u>(\$0.736)</u>	<u>(\$0.756)</u>	<u>(\$0.777)</u>

9. Under current law, property tax assistance is provided with three programs running directly through the property tax system: The Disabled American Veterans property tax assistance program (DAV), the Property Tax Assistance Program (PTAP), and the Extended Property Tax Assistance Program (EPTAP). The elimination of these programs would increase taxable value and offset some of the cost and tax shift of the tax credit.

*Extended Property Tax Assistance Program (EPTAP)*

10. This bill would eliminate the Extended Property Tax Assistance Program (EPTAP). EPTAP lowers taxable value for properties that had large increases in value between 2002 and 2008 and meet other criteria. In FY 2013, the reduction in taxable value due to EPTAP was \$1,541,880. It is assumed that the number of participants in EPTAP will decrease but the average reduction in taxable value will increase. It is assumed that the total taxable value exempted by EPTAP will be \$1,541,880 each remaining year of the current reappraisal cycle (FY 2014 and FY 2015). Reappraisal will occur on January 1, 2015. This fiscal note assumes 2015 residential reappraisal values will be similar to the 2009 reappraisal values and assumes EPTAP will not exempt taxable value in FY 2016 and FY 2017.

11. Applying the 95 state school equalization mills and the university 6 mills to the \$1,541,880 increase in taxable value raises general fund and state special revenue by the following amounts:

<b>Fiscal Impact of Eliminating the Extended Property Tax Assistance Program (EPTAP) under SB 287 as Introduced</b>				
	<b>FY 2014</b>	<b>FY 2015</b>	<u>(Reappraisal)</u>	
	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Increase in Taxable Value</b>	<b>\$1,541,880</b>	<b>\$1,541,880</b>	<b>\$0</b>	<b>\$0</b>
<b>Revenue effects</b>				
95 Mill Revenue	\$146,479	\$146,479	\$0	\$0
University 6 Mill Revenue	\$9,251	\$9,251	\$0	\$0

*Property Tax Assistance Program (PTAP)*

12. This bill would eliminate the Property Tax Assistance Program (PTAP). PTAP lowers taxable value for properties owned by low income taxpayers. In FY 2013, taxable value was reduced by \$12,805,457. From 2009 to 2012, the taxable value exempted by PTAP increased at a decreasing rate. It is assumed that taxable value exempted by PTAP will follow a similar pattern in FY 2014 – FY 2017. Applying the 95 state school equalization mills and the university 6 mill levy to the taxable value will increase general fund and state special revenue by the following amounts:

<b>Fiscal Impact of Eliminating the Property Tax Assistance Program (PTAP) under SB 287 as Introduced</b>				
	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
Increase in Taxable Value	\$13,573,784	\$14,116,736	\$14,399,071	\$14,399,071
<b>Revenue effects</b>				
95 Mill Revenue	\$1,289,510	\$1,341,090	\$1,367,912	\$1,367,912
University 6 Mill Revenue	\$81,443	\$84,700	\$86,394	\$86,394

*Disabled or Deceased Veterans' Exemption (DAV)*

13. This bill will allow property taxpayers that are eligible for the Disabled or Deceased Veterans' Exemption (DAV) program to take the new credit, or continue to use the DAV program, but not both. Because the DAV program provides for a 100% exemption on taxable value for the majority of participants, it is

assumed that all property taxpayers that are eligible for the DAV program will use the DAV program rather than the new credit.

14. The net impact of SB 287 credits that will be captured through the property tax systems are as follows:

<b>Reduction in General Fund Property Tax Revenue (millions \$)</b>				
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Homeowner Credits - General Fund	(\$10.292)	(\$10.610)	(\$10.937)	(\$11.274)
Elimination of EPTAP - General Fund	\$0.146	\$0.146	\$0.000	\$0.000
Elimination of PTAP - General Fund	\$1.290	\$1.341	\$1.368	\$1.368
Net change in general fund property tax	<u>(\$8.856)</u>	<u>(\$9.123)</u>	<u>(\$9.569)</u>	<u>(\$9.906)</u>

15. The net impact of SB 287 that will be captured through university 6 mill property tax are as follows:

<b>Reduction in University 6 mill Property Tax Revenue (millions \$)</b>				
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Homeowner Credits - SSR	(\$0.670)	(\$0.736)	(\$0.756)	(\$0.777)
Elimination of EPTAP - SSR	\$0.009	\$0.009	\$0.000	\$0.000
Elimination of PTAP - SSR	\$0.081	\$0.085	\$0.086	\$0.086
Net change in 6 mill revenue property tax	<u>(\$0.580)</u>	<u>(\$0.642)</u>	<u>(\$0.669)</u>	<u>(\$0.690)</u>

*Renter Credits (income tax credits for rent-equivalent property taxes paid)*

16. Because renters do not pay property taxes directly, the bill defines rent-equivalent property tax as 15% of gross rent and credits are claimed through income tax filings.

17. Using information reported to the department by renters who applied for the elderly homeowner credit, it is estimated elderly renters would have been eligible for credits of \$2,913,767 in FY 2012.

18. The Census Bureau (2011 American Fact Finder: B25072) estimates that 19,673 rental units in Montana are occupied by people over 65 years old. This is an average credit of approximately \$148 ( $\$2,913,767 / 19,673 = \$148$ ).

19. The Census Bureau estimates that 58.73% of renters in Montana over 65 pay at least 25% of their income in rent. For renters under 65 years old, 50.72% pay at least 25% of their income in rent. The percentage of renters under 65 that pay at least 25% of their income towards rent is 86.4% of the percentage of renters over 65 that pay at least 25% of their income in rent. So, the average credit for renters under 65 is estimated to be 86.4% of the credit calculated in assumption 18, or \$128 ( $\$148 \times 0.864 = \$128$ ).

20. The Census Bureau estimates that 110,007 rental units in Montana are occupied by people under 65 years old. Renters under 65 would be eligible to receive \$14,080,896 ( $110,007 \times \$128 = \$14,080,896$ ) in credits.

21. The total credit amount is equal to the amount paid to renters over 65 in assumption 18 (\$2,913,767), and the amount paid to renters under 65 in assumption #20 (\$14,080,896). There would have been \$16,994,663 in credits paid to renters in FY 2012 and this amount is assumed to carry-forward in FY 2014 through FY 2017.

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Renter Circuit Breaker Credit	(\$16,994,663)	(\$16,994,663)	(\$16,994,663)	(\$16,994,663)

*Elderly Homeowner/Renter Credit*

22. The official revenue estimate forecasts that there will be \$10,786,000 in elderly homeowner/renter credits claimed in both FY 2014 and FY 2015. The official revenue estimates do not forecast any growth in the elderly homeowner/renter credit. This bill would replace the elderly homeowner/renter credit. This is an income tax credit, so eliminating the credit would increase general fund revenue by \$10,786,000 in FY 2014 through FY 2017.

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Eliminate Elderly Homeowner/Renter Credit	\$10,786,000	\$10,786,000	\$10,786,000	\$10,786,000

23. The net impact of SB 287 credits that will be captured through the income tax systems are as follows:

<b>Reduction in Income Tax (millions \$)</b>				
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Renter Circuit Breaker Credit	(\$16,994,663)	(\$16,994,663)	(\$16,994,663)	(\$16,994,663)
Eliminate Elderly Homeowner/Renter Credit	\$10,786,000	\$10,786,000	\$10,786,000	\$10,786,000
Net impact on Income Tax	(\$6,208,663)	(\$6,208,663)	(\$6,208,663)	(\$6,208,663)

*Department of Revenue Administrative Costs*

- 24. The department will need to process about 50,000 applications each year for the new credit. Currently, the department processes about 12,000 applications for the elderly homeowner/renter credit, property tax assistance program, and the extended property tax assistance program each year. The department will need to hire 1.50 FTE to process the increase in applications.
- 25. The department will have operating expenses associated with the FTE.
- 26. The department will need to calculate the credit, and supply this amount to taxpayers and to county treasurers. It is estimated this will require 5 minutes to verify income amounts, 5 minutes to verify property taxes paid and 1 minute to calculate the credit for each application. This will require 4.00 FTE each fiscal year.
- 27. The department will have operating expenses associated with these FTE.
- 28. The property tax computer system would need to be modified to apply the circuit breaker credit when computing tax bills on behalf of counties. This will take 774 hours of development and testing by computer system vendor, and cost \$126,120 in FY 2014.
- 29. The department will need to notify 50,000 taxpayers of their credit amount. This will cost \$24,000 in FY 2014 for postage and printing. After FY 2014, it is estimated that taxpayers will be notified electronically.
- 30. The department will need to develop three new forms: a form for the application of the program; a form to report the credit amount to county treasurers; and a form to notify the recipient of the credit as well as remove references to EPTAP and PTAP on existing forms. This will cost \$13,272 in FY 2014.
- 31. There are no anticipated staff changes required in the Property Assessment Division because existing division staff can provide taxpayer assistance in completion of the application and in understanding the new property tax circuit breaker tax credit program.

**Office of Public Instruction (OPI)**

- 32. This bill increases taxable value in school districts to the extent that taxpayers in school districts participate in the EPTAP and PTAP property tax relief programs.
- 33. If this bill were in effect in TY 2012, it would have increased taxable value statewide by approximately 0.65%. The estimated school district taxable value changes would reduce state guaranteed tax base aid (GTB) by \$505,000 in FY 2014, \$171,000 in FY 2015, \$188,000 in FY 2016, and \$186,000 in FY 2017.

<b>Fiscal Impact:</b>	<b>FY 2014 Difference</b>	<b>FY 2015 Difference</b>	<b>FY 2016 Difference</b>	<b>FY 2017 Difference</b>
<b>Department of Revenue (DOR)</b>				
FTE	5.50	5.50	5.50	5.50
<b>Expenditures (DOR):</b>				
Personal Services	\$264,506	\$264,506	\$269,531	\$274,657
Operating Expenses	\$166,002	\$41,832	\$42,462	\$43,092
Equipment	\$61,146	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b>\$491,654</b>	<b>\$306,338</b>	<b>\$311,993</b>	<b>\$317,749</b>
<b>Funding of Expenditures:</b>				
General Fund (01)	\$491,654	\$306,338	\$311,993	\$317,749
<b>TOTAL Funding of Exp.</b>	<b>\$491,654</b>	<b>\$306,338</b>	<b>\$311,993</b>	<b>\$317,749</b>
<b>Office of Public Instruction (OPI)</b>				
<b>Expenditures (OPI):</b>				
Transfers (GTB)	(\$505,000)	(\$171,000)	(\$188,000)	(\$186,000)
<b>TOTAL Expenditures</b>	<b>(\$505,000)</b>	<b>(\$171,000)</b>	<b>(\$188,000)</b>	<b>(\$186,000)</b>
<b>Funding of Expenditures:</b>				
General Fund (01)	(\$505,000)	(\$171,000)	(\$188,000)	(\$186,000)
<b>TOTAL Funding of Exp.</b>	<b>(\$505,000)</b>	<b>(\$171,000)</b>	<b>(\$188,000)</b>	<b>(\$186,000)</b>
<b>Revenues:</b>				
General Fund (01) Income ta	(\$6,208,663)	(\$6,208,663)	(\$6,208,663)	(\$6,208,663)
General Fund (01) Property t	(\$8,856,000)	(\$9,123,000)	(\$9,569,000)	(\$9,906,000)
SSRevenue (02) - Property ta	(\$580,000)	(\$642,000)	(\$669,000)	(\$690,000)
<b>TOTAL Revenues</b>	<b>(\$15,644,663)</b>	<b>(\$15,973,663)</b>	<b>(\$16,446,663)</b>	<b>(\$16,804,663)</b>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</b>				
General Fund (01)	(\$15,051,317)	(\$15,467,001)	(\$15,901,656)	(\$16,246,412)
State Special Revenue (02)	(\$580,000)	(\$642,000)	(\$669,000)	(\$690,000)

**Effect on County or Other Local Revenues or Expenditures:**

**Department of Revenue**

1. There will be no revenue impacts to local governments because section 6 of the bill allows localities to use the tax credit information in their 15-10-420, MCA, maximum mill rate calculation.

**Technical Notes:**

**Department of Revenue**

1. New Sections 4 and 8 refer to taxes and returns required by Chapter 30 or 31. Chapter 31 is the law for corporation license tax. As written, this bill would allow two credits, one for an individual who owns and occupies a residence and one for an individual who rents and occupies a residence. If this is the intent, the references to chapter 31 are unnecessary.
2. New Section 6 permits local governments to include the total amount of the circuit breaker credit when calculating mills under 15-10-420, MCA. It is not clear how the circuit breaker for homeowners is funded.

**Montana Association of Counties**

3. SB 287 requires the county treasurer to show on the property tax bill the amount to be allowed as a circuit breaker credit. This may not be possible with current tax billing software and may require software programming.

**Department of Natural Resources and Conservation (DNRC)**

4. Including special assessments in the definition of property tax billed is problematic with regard to outstanding debt payable from special assessments. Local governments issue bonds to finance improvements in districts and use the special assessments to repay principal and interest on the bonds. If credits are applied to special assessments, revenues from the special assessments would be reduced and districts and local governments may not be able to meet their obligations under their outstanding bonds.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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*Date*