

Policy Basics: Montana's Property Tax System

September 2014

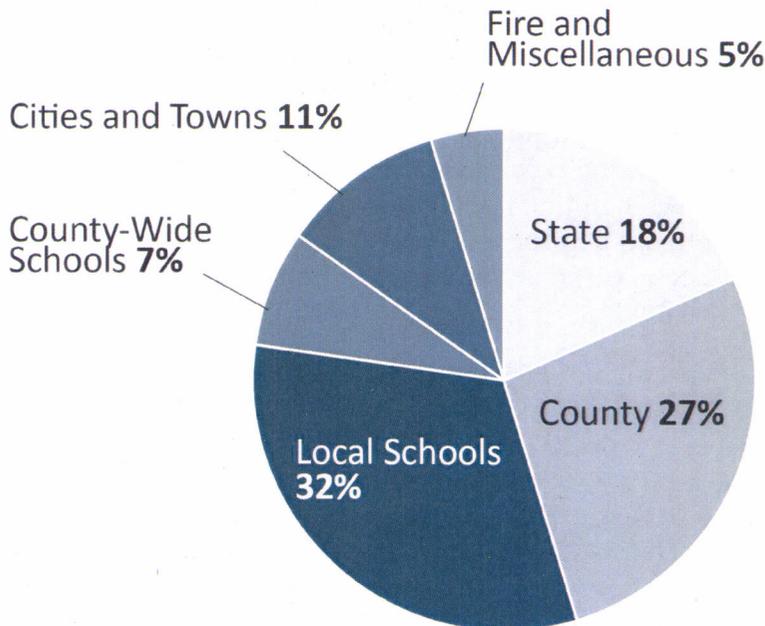
The Montana property tax system provides support for local public services, including funding for schools, roads and other infrastructure. Residential property owners pay almost half of all property taxes. Every six years, the state undergoes a reappraisal process to update the property values for purposes of property taxes.

Property Tax Basics

State and local property taxes collected in Montana make up approximately 40% of our total state and local revenue, for a total of \$1.34 billion in 2012.¹ The vast majority of these funds are directed toward local governments and schools to invest in critical public services. Eighty-one percent of property tax revenue is invested in local governments, including supporting local schools, public safety, and infrastructure such as roads and bridges.² The State of Montana receives about 19 percent of property taxes through statewide mills – to ensure equitable support of local schools, universities and technical colleges.³

Property taxes are invested in schools and local government services

Allocation of Property Taxes by Taxing Jurisdiction

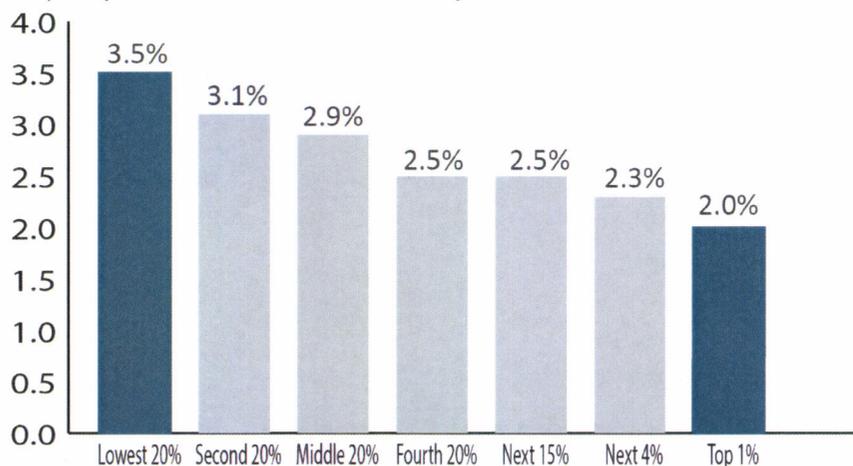


Source: Montana Department of Revenue, FY2014

The lion's share of property taxes are paid by residential homeowners, representing about 48 percent of all property tax revenue.⁴ While property taxes are greater for homes of higher value, the property tax system is still considered **regressive**, meaning that on average higher income households pay a smaller share of their income in property taxes than lower-income or middle-income households. In Montana, property taxes paid by the wealthiest one percent of taxpayers represents two percent of their overall income, compared to 3.5 percent of income for lower-income Montanans.⁵

Families with the lowest incomes pay property taxes at a greater share of income

Property Taxes as a Share of Family Income



Source: Institute on Taxation and Economic Policy, 2013

Property taxes tend to be regressive because they do not take into account a homeowner's income or ability to pay, and because housing costs tend to be larger in proportion to the income of low-income households than high-income households.⁶ For example, a family making \$50,000 a year may own a home costing \$150,000 or three times their income, while a family making \$1 million per year may own a home costing \$500,000, or half their income. Therefore, the property taxes paid by the low-income household will represent a greater proportion of their family income than the property taxes paid by a high-income household.

Property taxes are not limited to property owners. Renters pay a portion of the property taxes paid on rental properties because the taxes are "passed through" by the landlords when setting the rent amount. The passed-through property taxes paid by renters tend to represent a higher share of their income than for wealthy taxpayers.⁷

Determining Property Taxes

Determining what the property taxes will be on a piece of property is complicated and requires a series of steps. The Montana Department of Revenue is responsible for appraising - or valuing - property in the state to determine the **market value**.⁸ Each taxing jurisdiction - county, city, or school district - uses these values to calculate property taxes.

The Montana Legislature created 14 different classes of property, such as residential and commercial property, agricultural land, business equipment, and "centrally assessed" property.⁹ Each property within a class is valued in the same manner. For residential property, the market value is the value for which the property would sell between a willing buyer and willing seller.¹⁰ The Department uses the sales price of similar properties in the area to determine a value for properties that have not been sold.¹¹

The Montana Legislature then assigns a tax rate to each class of property, and multiplies that tax rate by the property's market value to determine the taxable value. With those values, local taxing jurisdictions - cities and counties - apply the mill levies to the property's taxable value to determine taxes owed. County governments are responsible for collecting property taxes and distributing the appropriate portion of those taxes to the state, cities, school districts and other taxing jurisdictions.¹²

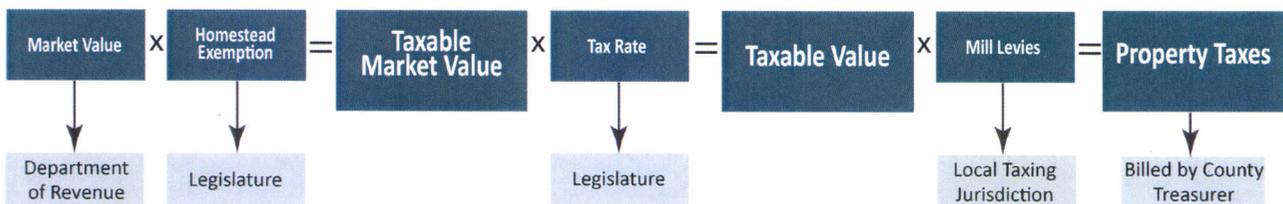
Key Terms

The **homestead exemption**, set by the legislature, reduces the amount of the market value of residential property that will be subject to property taxes. The homestead exemption is applied to the market value to determine the **taxable market value**.

A **tax rate**, set by the legislature, is then applied to the taxable market value to determine the **taxable value** of the property.

A **mill levy** is a tax rate per thousand dollars of taxable value of property. State and local mill levies are applied to the taxable value to determine the amount of property taxes owed. In total, the state imposes five different mill levies totaling 101 mills. In addition to the state mills, local cities and counties apply mill levies to the property within their jurisdiction to help fund local government operations. In 2012, an average of 548 mills were applied to all classes of property in the state.

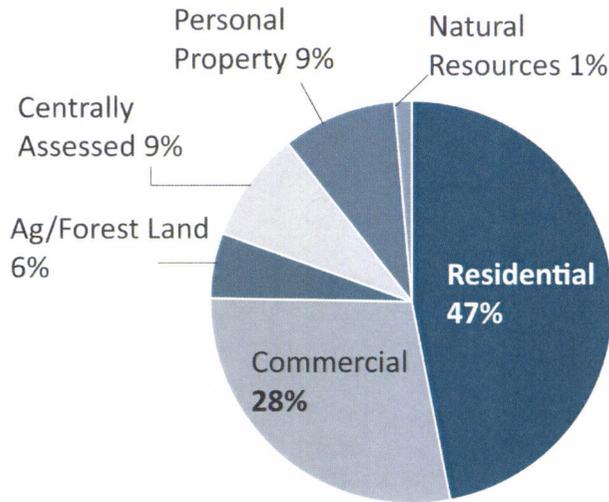
The chart below follows the process of how property taxes are calculated.



Property taxes paid by residential homeowners comprise almost half of all property taxes.¹³

Homeowners pay the largest share of property taxes

Percent of Property Taxes by Property Class

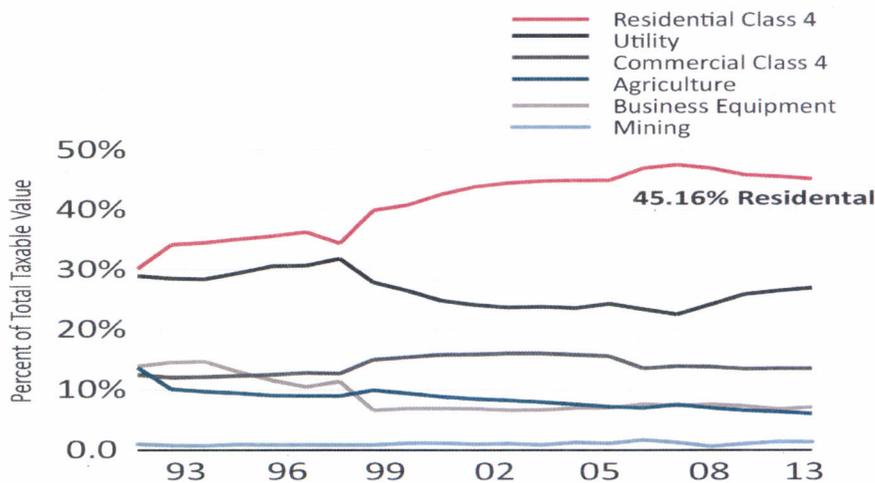


Source: MONTANA DEPARTMENT OF REVENUE, FY2014

In fact, Montana homeowners have seen an increase in the share of property taxes they pay compared to other classes of property.

Residential property has grown as a share of overall taxable value

Taxable value by class as a percent of total taxable value



Source: Montana Department of Revenue

Residential property owners pay a greater share of property taxes, in part, because the legislature has cut the tax rates on other property classes. For example, over the past several decades the effective tax rate on business equipment has fallen by over 50 percent.¹⁴ This often results in a shift of tax liability to other property taxpayers over time.¹⁵ The state legislature caps the amount local governments can raise from property taxes.¹⁶ When the legislature cuts the tax rates for some property classes, the total taxable value in the entire local jurisdiction decreases. When the taxable value goes down, so does the amount of revenue for that jurisdiction. To maintain revenue levels, the local jurisdiction would have to raise its mill levies on all property owners.¹⁷ The increased mill levies are then applied to the remaining property in the jurisdiction, most significantly to residential property. As a result, local revenue remains constant, but the obligation to support local government functions shifts to homeowners and other property owners.

Property Taxes in Indian Country

The taxation of property in Indian Country is often misconstrued as “losing” tax revenue. First and foremost, it should be clarified that the tax base was never “lost” as it never existed in the first place. Land that was given to tribal nations in exchange for control of all other lands in this country is classified as being *held in trust* by the United States government.¹⁸ Similar to all other federal property, such as national parks and forestlands, it is not subject to state or local property taxes. According to the General Allotment Act of 1887, American Indian treaty land was divided into individually owned parcels of land, known as allotments, and dispersed to all existing tribal members at the time.¹⁹ Any treaty land that was left over after this dispersal was seized from the tribe and became property of the federal government.

Like all other federally held lands, trust land held by individual tribal landowners or tribes is considered *nontaxable land* under federal law.²⁰ The federal government recognizes the expenses that counties and state municipalities incur due to this law. Therefore, the federal government provides funding “in lieu of taxes” to assist with the costs of maintaining the public infrastructures found on these lands. A second type of land on tribal reservations, known as *fee land*, is owned by individuals outright and may be subject to taxation.²¹ Montana’s seven tribal reservations contain both allotted trust land and fee land. Tribal landowners and tribes frequently contribute more to the state treasury than would be generated by property taxation in the form of *in lieu of tax* agreements with local municipalities.²²

Reappraisal Process

The Montana Constitution and state law requires the Department of Revenue to reappraise all property periodically and value similar property across the state in the same manner.²³ This reappraisal process occurs every six years. The Montana Department of Revenue is now completing the reappraisal cycle that began on January 1, 2009, and ends December 31, 2014. The next reappraisal cycle will begin January 1, 2015, and will end December 31, 2020. Compared to the last reappraisal cycle, where the average market value of residential property rose by 55 percent (from 2002 to 2008)²⁴, the Department estimates that residential property values

experienced minimal value increases statewide (with the exception of counties impacted by Bakken oil fields).²⁵

Change in Market Value, Taxable Value and Total Taxes, 2014-2015

	Market Value - Median Home*			Taxable Value - Median Home*			Total Taxes - Median Home*		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
Statewide	\$172,700	\$164,816	-4.57%	\$4,461	\$2,219	-1.86%	\$1,291	\$1,295	0.28%
Cascade	\$143,200	\$149,658	4.51%	\$1,875	\$2,015	7.47%	\$1,287	\$1,336	3.77%
Flathead	\$231,983	\$204,060	-12.04%	\$3,037	\$2,747	-9.54%	\$1,600	\$1,579	-1.33%
Gallatin	\$279,000	\$256,291	-8.14%	\$3,652	\$3,450	-5.53%	\$1,987	\$1,985	-0.13%
Lewis & Clark	\$179,700	\$166,204	-7.51%	\$2,352	\$2,237	-4.89%	\$1,615	\$1,577	-2.32%
Missoula	\$230,300	\$226,133	-1.81%	\$3,015	\$3,044	0.97%	\$2,154	\$2,159	0.21%
Richland	\$94,450	\$179,394	89.94%	\$1,236	\$2,415	95.32%	\$475	\$695	46.36%
Silver Bow	\$95,200	\$98,392	3.35%	\$1,246	\$1,325	6.28%	\$974	\$1,006	3.24%
Yellowstone	\$169,100	\$179,078	5.90%	\$2,214	\$2,411	8.90%	\$1,419	\$1,398	-1.47%

*Median values are estimated based on 2008 appraised values

Montana Department of Revenue

Consistent with previous reappraisal cycle, the legislature seems likely to maintain the current total taxable value in each class.²⁶ The legislature will accomplish this by lowering the tax rates or increasing the exemption rates (or both) to balance the 2014 taxable value with the reappraised 2015 market value. While this will maintain the overall taxable value within each property tax class, the impact on *individual* homeowners will depend on market values in their region or county and will vary from home to home.²⁷

Conclusion

The Montana property tax system plays an integral role in providing support for local schools, roads and other infrastructure. The reappraisal process ensures that the state is accurately valuing property. Property taxes tend to be regressive, taxing lower- and moderate-income households at a greater share of their income than higher-income households. As Montana moves through this upcoming reappraisal process, the state should consider policies that help those in need.

¹ Montana Department of Revenue, "Biennial Report: July 1, 2010 – June 30, 2012"
http://revenue.mt.gov/Portals/9/publications/biennial_reports/2010-2012/BiennialReport_2010-2012.pdf
² Montana Department of Revenue, "Biennial Report: July 1, 2010 – June 30, 2012"
http://revenue.mt.gov/Portals/9/publications/biennial_reports/2010-2012/BiennialReport_2010-2012.pdf
³ Montana Department of Revenue, "Biennial Report: July 1, 2010 – June 30, 2012"
http://revenue.mt.gov/Portals/9/publications/biennial_reports/2010-2012/BiennialReport_2010-2012.pdf
⁴ Montana Department of Revenue, "Biennial Report: July 1, 2010 – June 30, 2012"
http://revenue.mt.gov/Portals/9/publications/biennial_reports/2010-2012/BiennialReport_2010-2012.pdf

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- ⁵ Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 4th Edition, January 2013, <http://www.itep.org/pdf/mt.pdf>.
- ⁶ Institute on Taxation and Economic Policy, "Policy Brief: How Property Taxes Work," August 2011, <http://www.itep.org/pdf/pb46proptax.pdf>.
- ⁷ Institute of Taxation and Economic Policy, "Property Tax Circuit Breakers," September 2011, <http://itepnet.org/pdf/pb10cb.pdf>.
- ⁸ Montana Code Annotated 15-7-101 (2013), <http://leg.mt.gov/bills/mca/15/7/15-7-101.htm>.
- ⁹ Montana Code Annotated, Title 15, Chapter 6, Part 1 (2013), http://leg.mt.gov/bills/mca_toc/15_6_1.htm.
- ¹⁰ Montana Code Annotated 15-8-111 (2013), <http://leg.mt.gov/bills/mca/15/8/15-8-111.htm>.
- ¹¹ Montana Code Annotated 15-8-111 (2013), <http://leg.mt.gov/bills/mca/15/8/15-8-111.htm>.
- ¹² Montana Department of Revenue, "Understanding Property Taxes," retrieved September 2014, http://revenue.mt.gov/Portals/9/property/forms/understanding_property_taxes_general-2014.pdf.
- ¹³ Montana Department of Revenue, "Biennial Report: July 1, 2010 – June 30, 2012" http://revenue.mt.gov/Portals/9/publications/biennial_reports/2010-2012/BiennialReport_2010-2012.pdf
- ¹⁴ Montana Budget & Policy Center, "The Business Equipment Tax in Context," February 9, 2009, <http://www.montanabudget.org/business-equipment-tax-context/>.
- ¹⁵ In some, but not all, instances of cuts to Class 8 property tax rates, the legislature has backfilled the loss of revenue to local taxing jurisdictions through additional general fund appropriations, which has the effect of costing the state twice.
- ¹⁶ Montana Code Annotated 15-10-420 (2013), <http://leg.mt.gov/bills/mca/15/10/15-10-420.htm>.
- ¹⁷ Montana Code Annotated 15-10-420 (2013), <http://leg.mt.gov/bills/mca/15/10/15-10-420.htm>.
- ¹⁸ William C. Canby, Jr., "American Indian Law in a Nutshell," 5th ed., 1981.
- ¹⁹ William C. Canby, Jr., "American Indian Law in a Nutshell," 5th ed., 1981.
- ²⁰ Stephen L. Pevar, "The Rights of Indians and Tribes," 4th ed., 2012.
- ²¹ William C. Canby, Jr., "American Indian Law in a Nutshell," 5th ed., 1981.
- ²² Stephen J. Pevar, "The Rights of Indians and Tribes," 4th ed., 2012. See also Charles River Associates, Inc., "Preliminary Estimate of Revenue Derived by Wyoming and Fremont Counties from Residents and Businesses on the Wind River Reservation and Expenditures by Wyoming and Fremont County for Services to the Reservation, 1988-2002," December 9, 2009, [http://www.northernarapaho.com/sites/northernarapaho.com/files/Revenues%20Der.%20Study%20\(CRA%202003\)%20w.o.%20App%20A.pdf](http://www.northernarapaho.com/sites/northernarapaho.com/files/Revenues%20Der.%20Study%20(CRA%202003)%20w.o.%20App%20A.pdf).
- ²³ Montana Department of Revenue, "Understanding Property Taxes," retrieved September 2014, http://revenue.mt.gov/Portals/9/property/forms/understanding_property_taxes_general-2014.pdf.
- ²⁴ The Missoulian, "Montana residential reappraisals show drops in Flathead, Ravalli counties," June 16, 2014, http://missoulian.com/news/local/montana-residential-reappraisals-show-drops-in-flathead-ravalli-counties/article_3db44572-f4ea-11e3-8b4e-0019bb2963f4.html.
- ²⁵ The Missoulian, "Montana residential reappraisals show drops in Flathead, Ravalli counties," June 16, 2014, http://missoulian.com/news/local/montana-residential-reappraisals-show-drops-in-flathead-ravalli-counties/article_3db44572-f4ea-11e3-8b4e-0019bb2963f4.html.
- ²⁶ Montana Department of Revenue, 2014 Property Reappraisal Presentation, September 15, 2014, http://revenue.mt.gov/Portals/9/property/reappraisal-roadshow/Property%20Tax%20Presentation%20to%20Governor%20v5_%209-15-14.pdf.
- ²⁷ Readers can find more information at Department of Revenue, Preliminary Estimates of Property Tax Changes Due to 2015 Reappraisal – Statewide and by County, retrieved September 17, 2014, <http://revenue.mt.gov/Portals/9/property/reappraisal-roadshow/Map-Tables-Links-Temp.pdf>.