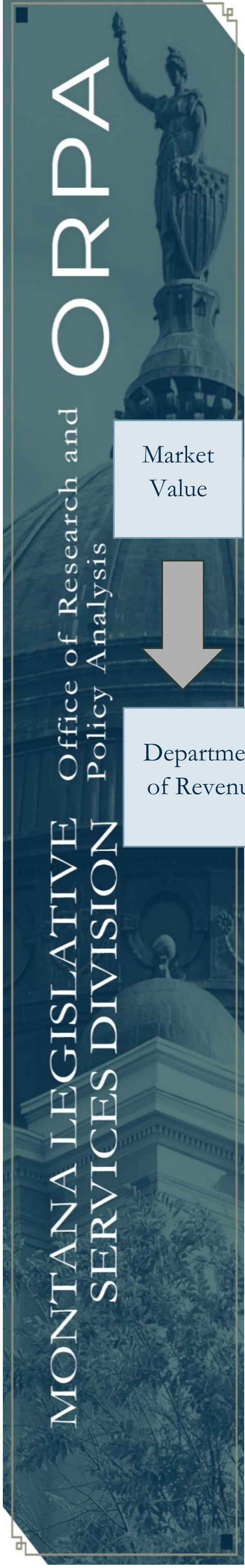
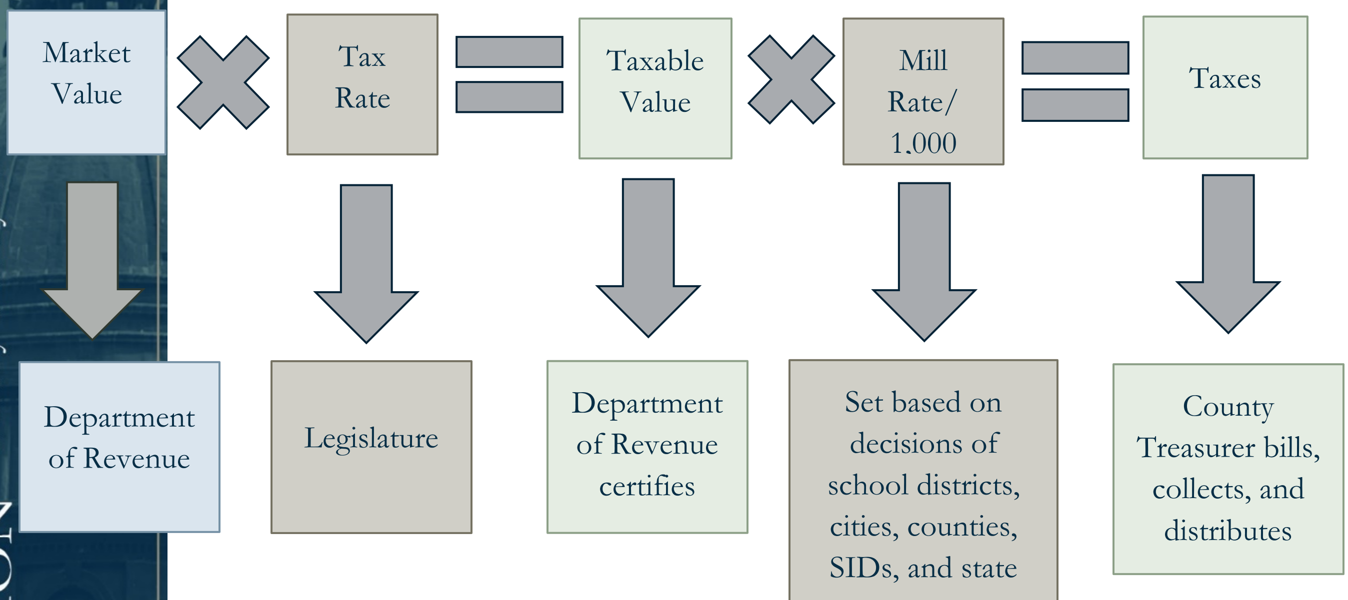


January 2020
HJ 35 Tax Study Committee
Megan Moore

PROPERTY TAX OVERVIEW

PROPERTY TAX CALCULATION



MILL LEVIES

Taxing jurisdictions in Montana set mill levies that are multiplied by taxable value to determine taxes due. The state levies property taxes for education as follows:

- the 95 mills: 33 mills for county elementary equalization, 22 mills for county high school equalization, and 40 mills for state equalization;
- 6 mills for the state university system; and
- 1.5 mills for vocational-technical education levied in Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone Counties.

Other taxing jurisdictions such as counties, cities, school districts, and special improvement districts also set mill levies to fund local services and public schools.

Section 15-10-420, MCA, limits mill levies for most taxing jurisdictions other than school districts to a levy sufficient to raise the revenue raised in the previous year plus half the rate of inflation over the previous 3 years. The allowable mill levy is calculated using the current year taxable value of property in the taxing jurisdiction less the taxable value of newly taxable property. Newly taxable property includes new construction, subdivided property, and transfer of property from tax-exempt to taxable status.

A taxing jurisdiction may exceed the mill levy calculated pursuant to 15-10-420, increase a mill levy that is required to be submitted to voters, or impose a new mill levy upon an affirmative vote of the voters in the jurisdiction. This authority is provided for in 15-10-425, MCA.

CLASSES OF PROPERTY

Class	Description	Tax Rate	Valuation Standard	Valuation Cycle
1	Net proceeds of mines	100%	Net proceeds	Annual
2	Gross proceeds of metal mines	3%	Gross proceeds	Annual
3	Agricultural land, nonqualified agricultural land, nonproductive patented mining claims	2.16%; nonqualified ag: 15.12%	Productivity value	2 years
4	Residential, commercial, industrial	Residential: 1.35% Commercial/industrial: 1.89% Single family residence value over $1.5 million: 1.89% Golf course: 0.945%	Market value	2 years
5	Rural electric cooperatives not included in class seven, rural telephone cooperatives, pollution control and carbon capture equipment, new industrial property, property used to furnish telecommunications in rural areas	3%; new pollution control equipment exempt for 10 years	Market value	Annual
7	Rural electric cooperatives not included in class nine, noncentrally assessed utilities	8%	Market value	Annual
8	Business equipment	First $100,000 MV exempt, $100,001 to $6 million: 1.5%, Above $6 million: 3%	Market value	Annual

Class	Description	Tax Rate	Valuation Standard	Valuation Cycle
9	Nonelectric generating property of electric utilities, pipelines	12%	Market value	Annual
10	Forest land	0.37%	Productivity value	6 years
12	Railroad and airline property	Lesser of taxable value of commercial property divided by market value of commercial property or 12%; 2018 tax rate: 3.04%	Market value	Annual
13	Electric generating property of electric utilities and telecommunications utilities	6%	Market value	Annual
14	Renewable energy production and transmission property	3%	Market value	Annual
15	Carbon dioxide and liquid pipeline property	3%; 1.5% for carbon sequestration equipment granted an abatement	Market value	Annual
16	High voltage direct-current converter stations	2.25%	Market value	Annual
17	Certain qualified data centers, dedicated communications infrastructure for 15 years (after which it's class thirteen)	0.9%	Market value	Annual

APPROACHES TO VALUE

The Department of Revenue uses three approaches to determine the market value of a property.

SALES COMPARISON APPROACH

The sales comparison approach uses comparable sales of like property. Sales prices for arm's-length sales of similar properties are used with adjustments for property characteristics. The sales comparison approach is used for residential and commercial property.

COST APPROACH

The cost approach uses the original cost of the property less depreciation. Information comes from the balance sheet and other business records. The cost approach is used for commercial property and industrial property and may be used for residential property when sales data is not available.

INCOME APPROACH

The income approach uses the income generated from the property divided by a capitalization rate. The capitalization rate is the rate of return expected from investment property. The information comes from income statements and financial markets. The income approach is used to value commercial and industrial property. A version of the income approach is also used to value agricultural property and forest property, which are valued based on their productivity.

CENTRALLY ASSESSED PROPERTY

Centrally assessed property is property operated as a single and continuous property, either because the property is physically connected or because the property is functionally operated as a single entity. Examples of centrally assessed property are railroads; scheduled airlines; telephone, electric power, or transmission lines; rate-regulated natural gas transmission or oil transmission pipelines; natural gas distribution utilities; gas-gathering facilities; and canals, ditches, and flumes. Centrally assessed property is included in class five, class nine, class twelve, class thirteen, class fourteen, and class fifteen.

The unit valuation method is used to value centrally assessed property. The Department values the property of the entire company and that value is allocated to the state of Montana and then to taxing jurisdictions within the state. Intangible personal property is exempt from taxation and must be removed from the unit value of centrally assessed property. Examples of intangible personal property include stocks, bonds, licenses, promissory notes, copyrights, patents, trademarks, contracts, software, franchises, and goodwill.

PROPERTY TAX ASSITANCE

There are two property tax assistance programs that reduce the taxable value of eligible taxpayers and an income tax credit for property taxes paid by elderly homeowners and renters.

PROPERTY TAX ASSISTANCE PROGRAM

The property tax assistance program reduces the taxable value on the first $200,000 of value of a taxpayer's primary residence. For tax year 2019, eligibility is set at federal adjusted gross income of $23,337 or less for single taxpayers and $31,116 or less for married taxpayers or heads of household. The taxpayer receives an exemption of 80%, 50%, or 30% based on income.

DISABLED VETERANS PROGRAM

A 100% disabled veteran or the spouse of a veteran killed on active duty or who died from a service-connected disability is eligible for an exemption on the primary residence of 50% to 100% based on income. For 2019, the federal adjusted income limit is $53,955 for a single qualified veteran, $62,256 for a married or head of household qualified veteran, and $47,038 for an unmarried surviving spouse.

ELDERLY HOMEOWNER AND RENTER CREDIT

The elderly homeowner and renter income tax credit is available for homeowners and renters age 62 or older who reside in Montana at least 9 months of the tax year. The credit is based on the amount of property taxes or rent-equivalent tax paid (which is equal to 15% of gross rent). The amount of the credit varies based on income and is available to taxpayers with a gross household income of less than $45,000. The maximum credit is $1,000 and the credit is refundable. The credit may not be claimed by residents of property not subject to property taxes (such as certain nursing facilities), except for property rented from a county or municipal housing authority.

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