

Good Afternoon



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Real Property Tax Exemptions

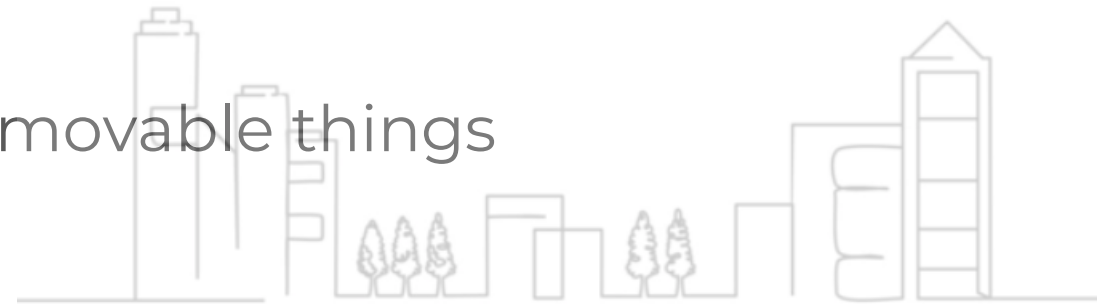
Montana Department of Revenue
Property Assessment Division



Real Property Tax Exemptions

Property Tax Exemptions – eliminate obligation to pay taxes on property

Real Property – land and buildings and immovable things affixed to land

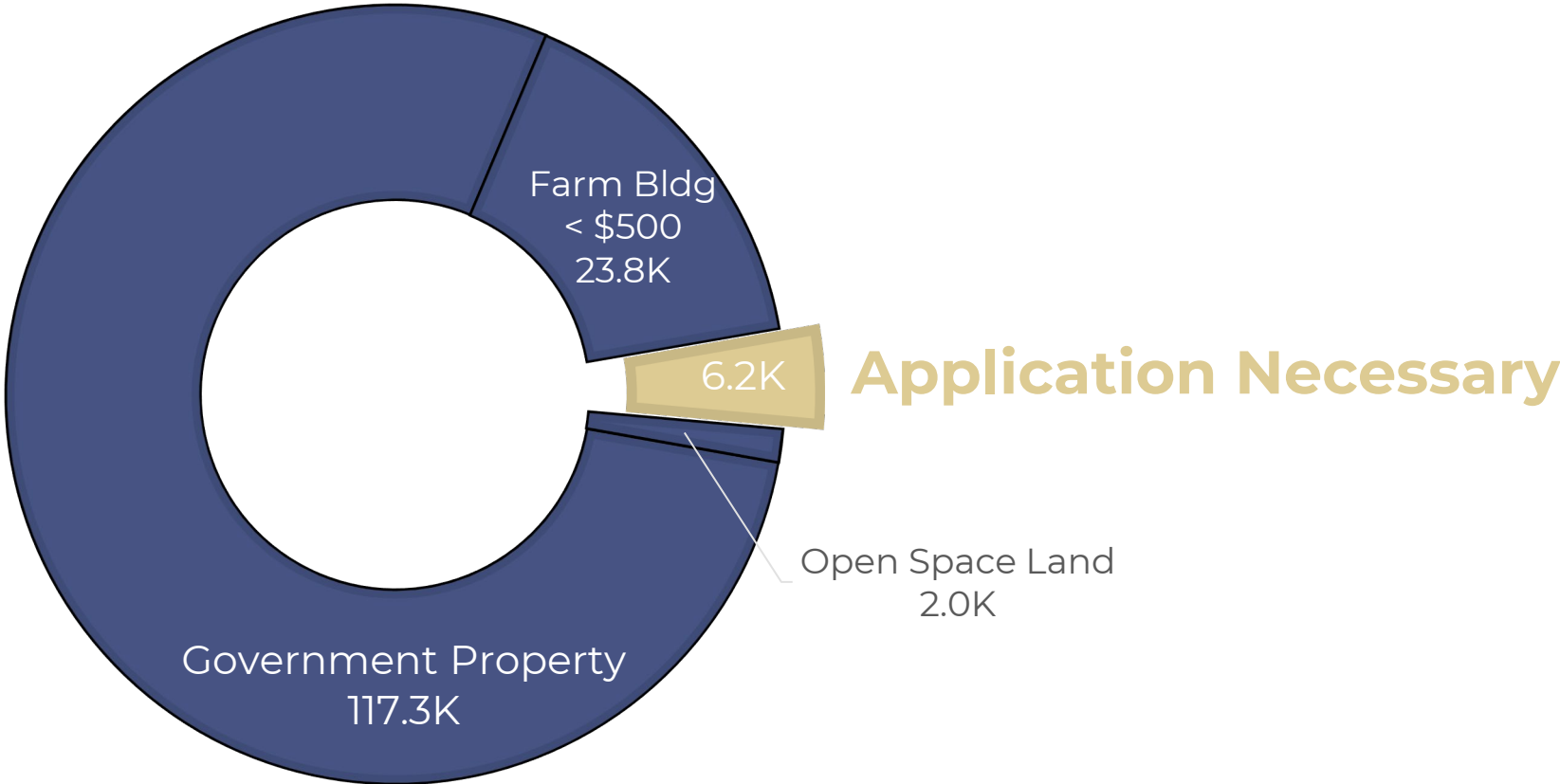


Real property tax exemption information managed by PAD

Automatically Exempt Versus Application Necessary

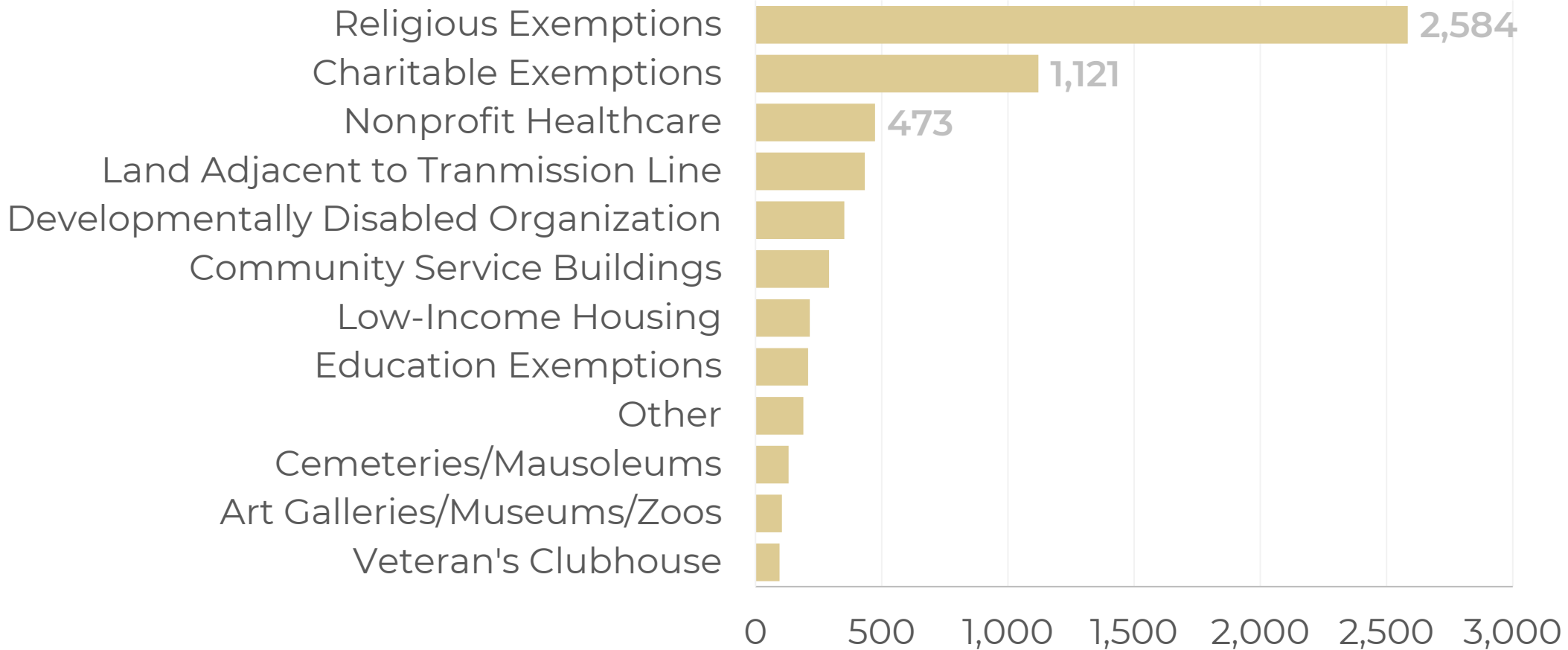
Number of Properties Receiving Real Property Tax Exemption (2021)

Automatically Exempt Property



Application Necessary

Number of Exempt Properties (2021)

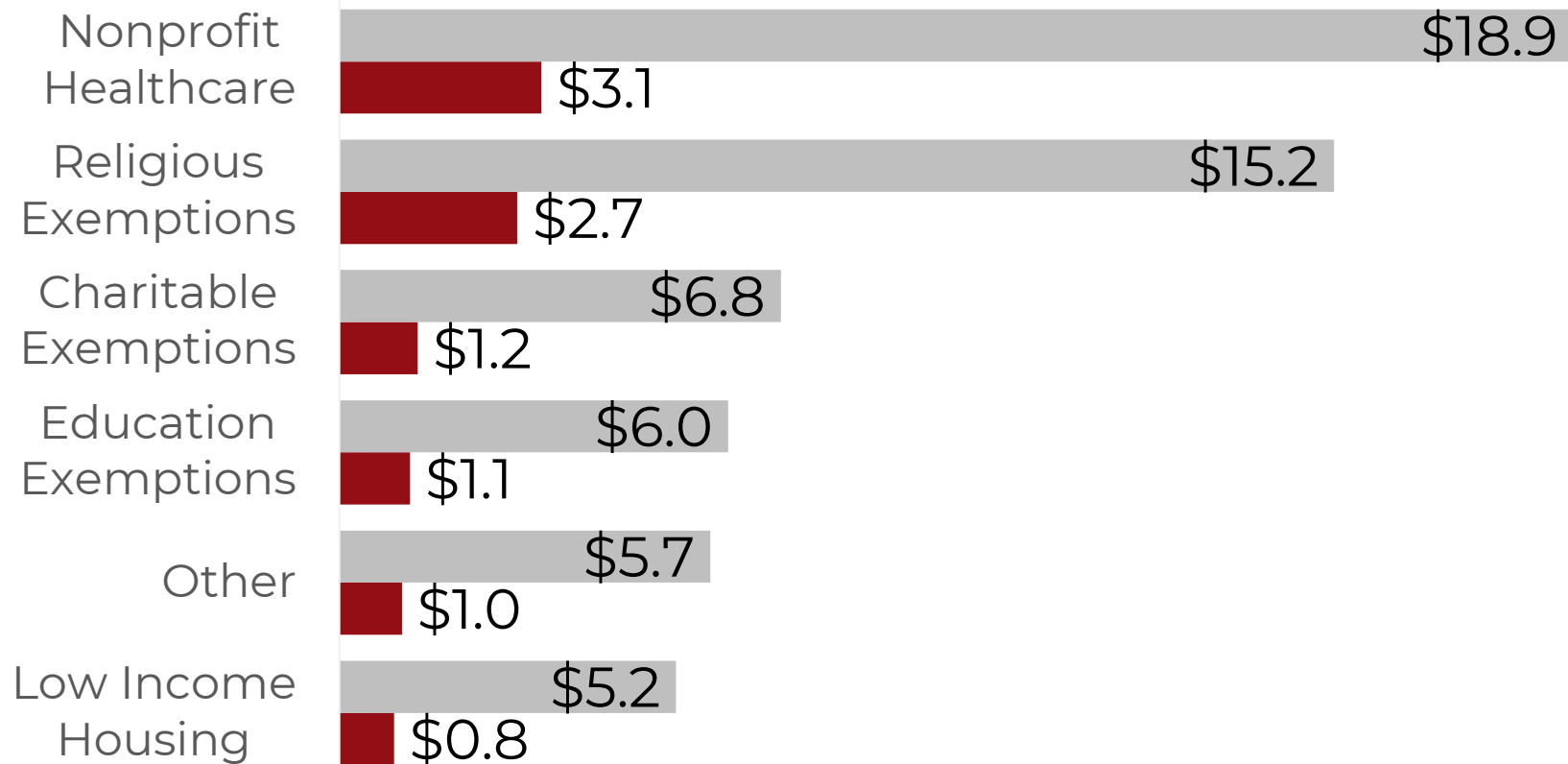


Impacts of Real Property Tax Exemptions

Local Tax Shift and

Reduction in State Revenue (\$ Millions)

by Type of Exemption for Which Application Necessary (2021)



Objectives



Objective 1: Is the department collecting and effectively managing information to ensure accuracy of real property tax exemption data?

Objective 2: Do Montana's real property tax exemptions achieve their intended purpose while maintaining equal treatment for similar types of taxpayers?

Review of exempt real property data not consistently occurring

1. Properties inappropriately receiving exemptions

- Exemption status not always updated
- Over \$90,000 impact to taxpayers and state in 2021

2. Properties receiving exemptions without supporting exemption information

- Over 100 properties

Recommendation #1:

We recommend that the Department of Revenue implement periodic quality control testing and review of exempt real property data.

Department Response: Concur

Department Can Improve Processes that Affect Reporting of Exempt Property Information

- Lack of established processes has led to:
 - Diminished data quality
 - Reduced accuracy of reporting

Recommendation #2:

We recommend that the Department of Revenue establish and implement processes to improve the accuracy and usefulness of data to enhance reporting on exempt real properties.

Department Response: Conditionally Concur

Site visits not consistently conducted and documented as part of application review process

- Over 600 exemptions granted with no recorded visit of any kind for at least 5 years

Site Visits:

- Part of application review process
- Required by administrative rule
- Visit a property to confirm being used for its exempted purpose



Recommendation #3:

We recommend the Department of Revenue consistently conduct and document site visits.

Department Response: Conditionally Concur

Property Owned by Montana Department of Fish Wildlife & Parks (FWP) Inappropriately Indicated as Taxable

- FWP properties had positive taxable value
- Inconsistent with statute



Instead:

- FWP properties should be exempt from taxation
- County treasurer requests drawing of warrant and FWP makes a payment in lieu of taxes

Counties & FWP say current process, though inconsistent with statute, works well.

Recommendation #4:

We recommend that the Department of Revenue update processes and as necessary seek legislation to make statute and practices related to determining and recording the taxable status or payment in lieu of tax amount of Department of Fish Wildlife and Park's property consistent.

Department Response: Concur

Tracking exclusive and beneficial use of exempt property

Exempt property is taxable when:

- Lessee has exclusive use of federally owned property
- Beneficial use of exempt real property for business purposes enjoyed by private individual, association, or corporation

Treat similar types of taxpayers equally

Reporting and tracking of beneficial and exclusive use can be improved

- Beneficial and exclusive use of exempt property under-reported
 - Government entities not required to report
- Poor documentation in database

Recommendation #5:

We recommend the Department of Revenue:

A. Develop effective identification and tracking of exempt property leased out to nonexempt entities for their beneficial or exclusive use.

B. Seek legislation that requires governmental entities to report beneficial and exclusive use to the department.

Department Response: Conditionally Concur

**Review of Implementation of HB 389 (2015)
and
Considerations for Future Reviews**



HB 389 (2015) required most entities that applied and were receiving exemption to submit a new application to department (reapplication)



Department reviewed reapplications from 2016 through 2021
Granted or denied exemptions



HB 389 (2015) was beneficial

We found:



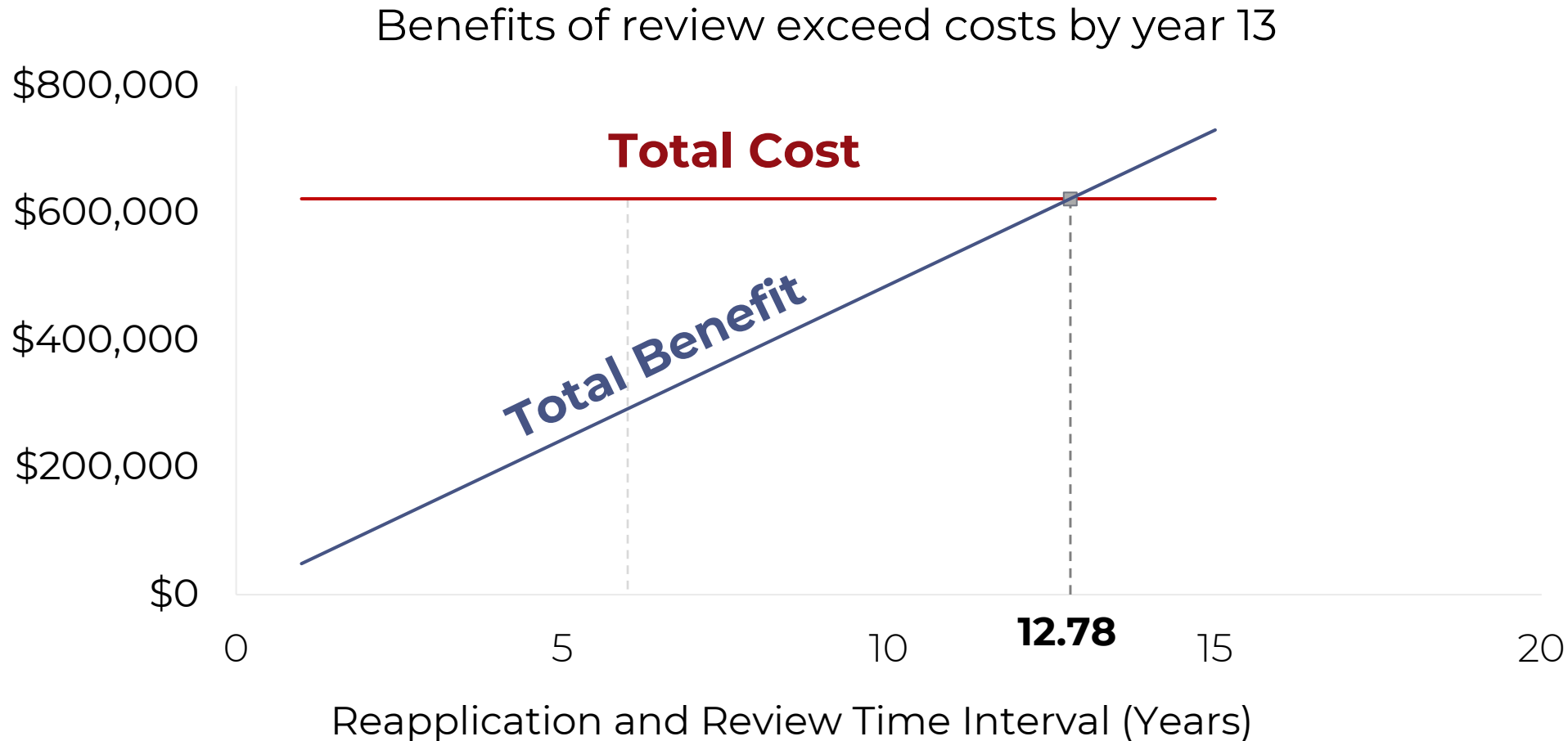
Benefits to taxpayers and state from denied exemptions outweighed costs to implement bill



Resulted in improvements in tracking and communication of exemption information

How often should properties have to reapply?

Analysis supports 13-year reapplication and review interval



More focused reapplication and review based on risk

<u>Exemption Type</u>	<u>Benefit per Exemption Reviewed</u>
Nonprofit Healthcare	\$1,058
Education Exemptions	\$963
Community Service Building/Fraternal	\$956

Recommendation #6:

We recommend that the Montana Legislature require a periodic reapplication and review of exempt real property, considering the costs and benefits of either a broad or targeted reapplication process.

Objective 2: Review of Montana's Real Property Tax Exemptions, Reporting, and Evaluation Efforts, and Best Practices

Biennial report does not provide all required exemption information:

- Year exemptions enacted and individual statutory references
- Number of and lost revenue attributable to several less commonly used exemptions
- Known purpose of one exemption with explicit legislative purpose in statute

Recommendation #7:

We recommend that the Department of Revenue provide required information related to real property tax exemptions, as available, in the biennial report to better inform legislative decision-making.

Department Response: Concur

Observations from our review of Montana's real property tax exemptions:

- Appear in 37 sections of statute
- Several bills proposed each of recent legislative sessions
- No consistent evaluation and review
- Unclear if some achieving intended purposes
- Multiple exemptions not being used

Best practices call for establishing processes to allow for evaluation and review of exemptions

Legislative best practices in property tax exemption policy:

- Exemptions treat similar types of taxpayers equally
- Consistently establish explicit, known purposes and metrics to be used in evaluation to determine if exemption meets purpose
- Establish formal process where lawmakers consider the results of evaluation
- Require sunset or periodic review

Recommendation #8:

We recommend the Montana Legislature:

- A. Require new real property tax exemptions include policy goals and evaluation metrics that can be used to determine if exemptions are meeting their purposes.
- B. Assign responsibility for evaluation and review of real property tax exemptions.

Thank you!

Happy to answer any questions.