

# **DRAFT STUDY PLAN FOR AN INTERIM STUDY OF PROPERTY TAX ASSISTANCE PROGRAMS**

Prepared for the Revenue and Transportation Interim Committee

by

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## **INTRODUCTION**

House Bill No. 658 (Chapter 483, Laws of 2009), enacted during the 2009 legislative session, provided for property tax mitigation to deal with the effects of cyclical reappraisal on agricultural land, residential and commercial land and improvements, and forest land. The legislation also requested the Revenue and Transportation Interim Committee to review methods of providing assistance to property taxpayers, including circuit breaker programs and assistance to low-income, veteran, and elderly property owners and whether the assistance should be accomplished through income tax or property taxation means.

At the Committee's July 1, 2009, meeting, Senator Kim Gillan appointed a subcommittee/working group to discuss the elements for a study plan to look at property tax assistance alternatives. The subcommittee members are Senator Christine Kaufmann and Representatives Dick Barrett, Brian Hoven, and Carlie Boland. The subcommittee met with interested parties on August 17, 2009, to discuss the study plan. This paper represents, to a lesser or greater extent, the subcommittee's discussion of what should go into the study plan.

The paper briefly describes current property tax assistance programs in Montana and presents study activities and a schedule for completing the study.

## **CURRENT PROPERTY TAX ASSISTANCE PROGRAMS**

Montana provides separate, targeted property tax assistance programs for low-income individuals, disabled veterans, and individuals 62 years of age and older. The state also provides an extended property tax assistance program, under certain conditions, for residential property owners whose residential property has extraordinary market value increases because of reappraisal.

The property tax assistance program for low-income individuals is contained in 15-6-134, MCA. If a property owner meets the specified income and residency requirements (the residence must be occupied by the owner for at least 7 months of the tax year), the first \$100,000 of taxable market value (taking into account the phased-in value and the homestead exemption) of improvements and up to 5 acres of land is subject to a lower property tax rate, depending on income.

House Bill No. 658 revised the definition of income for purposes of meeting the income threshold requirements. For tax year 2009, income is the federal adjusted gross income of the property owner. For subsequent tax years, income is all income, excluding losses, depletion, and

depreciation, reported on individual or corporate tax returns before any federal or state adjustments to income.

The legislation also provided that the combined income of two or more owners of a residential property may not exceed the income thresholds of married or head of household property taxpayers. Income threshold amounts are adjusted annually for inflation by the index for personal consumption expenditures.

Between 2005 and 2008, property taxpayer participation in the property tax assistance program declined by about 23%.

Disabled veterans are allowed a property tax exemption on their residential property (improvements and up to 5 acres of land) of between 50% and 100% of market value of the property depending on income (15-6-211, MCA). Before 2003, a disabled veteran within a certain income range was allowed a full property tax exemption for the veteran's residence. Since 2003, the amount of property tax relief is calculated in a manner similar to the property tax assistance program.

To qualify for the exemption, the veteran must be 100% disabled with a service-connected disability. Income is the property owner's federal adjusted gross income for the preceding calendar year. Income threshold amounts are adjusted annually for inflation by the index for personal consumption expenditures.

The unmarried surviving spouse of a disabled veteran is eligible for the exemption depending on income.

Between 2004 and 2007, participation in the disabled veterans' exemption program increased by about 23%.

Residential property owners and renters who are 62 years of age or older are allowed a refundable residential property tax credit (elderly homeowner and renter credit) for property taxes paid directly on the property or indirectly through rent (15-30-2337 through 15-30-2341, MCA; formerly 15-30-171 through 15-30-179, MCA). The rent-equivalent property tax paid is 15% of the gross rent. The maximum credit that may be claimed in a year is \$1,000.

The claimant must have lived in Montana for at least 9 months of the tax year and have household income of less than \$45,000 a year. Income is the claimant's federal adjusted gross income, without regard to loss, plus all nontaxable income. Household income is total income less \$6,300.

The amount of the credit is based on the claimant's income and is phased out for claimants with income between \$35,000 and \$45,000. The maximum amount of the credit is \$1,000. There are no adjustments for inflation in the calculation of the credit.

The claim for the credit must be filed with the claimant's income tax return or, if the claimant is not required to file a tax return, then by April 15 of the year following the year for which the claim is made (Form 2EC). Between 2004 and 2007, participation in the program declined by just over 11%. The entire amount of the decline is attributable to claimants who only file Form 2EC. The number of participants who filed the claim with a state tax return increased by about 9% during the same period.

House Bill No. 658 also revised the extended property tax assistance program. The program, originally enacted in 2003 (Senate Bill No. 461, Chapter 606, Laws of 2003), provides property tax assistance to homeowners who experienced extraordinary market valuation increases because of cyclical reappraisal. The amount of assistance is based on taxpayer income, the percentage increase in taxable value, and the increase in tax liability. A property owner must qualify each year of the reappraisal cycle to receive the reduced property tax rate.

The property tax assistance program, the disabled veteran's exemption, and the extended property tax assistance program provide a reduced property tax rate in determining taxable value of property. As such, each reduces the property tax bill of the taxpayer for local and state property taxes. The elderly homeowner and renter credit provides a rebate to taxpayers for a portion of property taxes paid, and the credit is funded through the state general fund.

States employ a variety of techniques to ostensibly provide property tax relief to their citizens. Some relief measures apply to owner-occupied residential property in general, while others apply to the poor, elderly, or disabled. Some states also provide property tax relief for renters.

Many states provide some sort of homestead exemption, assessment limit, or other relief for all residential taxpayers, regardless of age or income, including:

- a fixed-dollar homestead exemption;
- a fixed-percentage exemption;
- mill rate caps or levy caps;
- homestead property tax credits (may apply to a specific type of mill levy, such as schools).

Many states also provide additional, targeted homestead exemptions or credits for property taxpayers. These programs may have age or income restrictions, or both.

A more specific type of property tax assistance is the property tax circuit breaker. The term was coined in the 1960s by John Shannon of the U.S. Advisory Commission on Intergovernmental Relations. A property tax circuit breaker is analogous to an electrical circuit breaker in that it can prevent taxpayers from being overburdened by property taxes.<sup>1</sup>

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<sup>1</sup>John H. Bowman, Daphne A. Kenyon, et al., "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers", Lincoln Institute of Land Policy (2009), p. 5.

The amount of relief is dependent on the taxpayer's income and property tax bill. Circuit breakers target property tax relief to low-income or moderate-income homeowners or renters, or both. Benefits are inversely proportional to income, or as income increases, benefits decline.

## **OUTLINE OF STUDY ACTIVITIES**

The study plan focuses on an analysis of current, targeted property tax assistance in Montana, an evaluation of other types of targeted property tax assistance, and consideration of options related to property tax assistance. Elements of the study may include:

1. A detailed review of existing property tax assistance programs in Montana, including eligibility requirements and limitations of the assistance
2. An analysis of existing property tax assistance programs, including:
  - a. total state or local costs for each type of property tax assistance program
  - b. participation rates, or the ratio of recipients to total eligible taxpayers, for each type of property tax assistance program
  - c. factors that affect the level of participation in the programs
  - d. amount of property tax assistance or credit received in relation to residential property value
  - e. amount of property tax liability as a proportion of income before and after receiving property tax assistance
  - f. the effectiveness of property tax assistance programs for alleviating property tax burdens
3. Survey of property tax assistance programs in other states
4. Overview of targeted property tax assistance programs
  - a. taxonomy of property tax assistance programs (highlighting similarities and differences);
    - i. property tax credit or exemption
    - ii. circuit breakers
    - iii. property tax deferral
    - iv. other
  - b. eligibility and program design, including
    - i. status of taxpayer -- property owner, renter, age, disability
    - ii. income level of taxpayer
    - iii. definition of income
    - iv. percentage of income devoted to property taxes
    - v. relief based on threshold, sliding scale, or hybrid method
    - vi. inflation adjustment
    - vii. notch effects -- significant reduction in property tax relief given a proportionately smaller increase in taxpayer income
    - viii. administration through state or property tax system;

5. Evaluate types of property tax assistance programs
  - a. establish criteria of a good property tax assistance program
  - b. discuss the advantages and disadvantages of maintaining the current property tax assistance programs
  - c. discuss the advantages and disadvantages of revising or revamping existing property tax assistance programs
6. Consider options for providing property tax assistance
  - a. maintain current system
  - b. revise or expand current system
  - c. revamp current system
  - d. target specific demographic group or groups
  - e. develop a consolidated property tax assistance program

### **PROPOSED SCHEDULE**

The following is a proposed schedule for conducting the study

1. September 2009 meeting -- discuss, revise, adopt study plan
2. December 2009 meeting
  - a. review and analysis of Montana's existing property tax assistance programs
  - b. Consider overview of types of property tax assistance programs that may be considered
3. February 2010 meeting
  - a. survey of other states' property tax assistance programs
  - b. evaluate types of property tax assistance programs, including development of criteria of a good property tax assistance program
4. April 2010 meeting
  - a. consider options related to property tax assistance programs
  - b. make preliminary recommendations and request a bill draft, if considered appropriate
5. July 2010 meeting
  - a. review the bill draft, if requested
  - b. consider revisions to initial recommendations
6. September 2010 meeting
  - a. review revisions to draft legislation, if necessary
  - b. adopt recommendations and review outline of final report

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