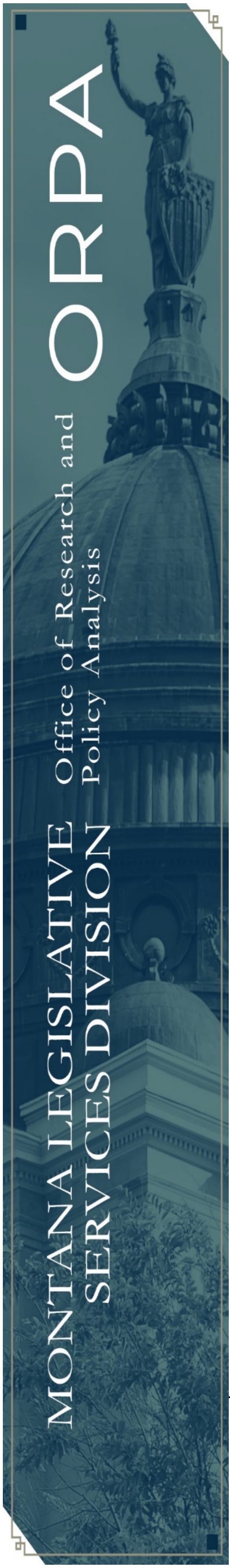

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HJ 35 Tax Study Committee
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PROPERTY TAX HISTORY

OVERVIEW

This property tax history provides information on significant changes to the property tax from the adoption of the 1972 Montana Constitution to the present. The history is organized by reappraisal cycle. An appendix at the end shows changes to the classification system and tax rates. See the Department of Revenue Biennial Report, July 1, 2012 – June 30, 2014, pages 160-161, for a visual representation of some of the information included here.

1972-1977: FIRST REAPPRAISAL CYCLE

1972

Article VIII, Section 3, of the 1972 Montana Constitution assigned to the state the duty to "appraise, assess, and equalize the valuation of all property."

Before the adoption of the 1972 constitution, appraisal was a county function supervised by the State Board of Equalization. Though state law required property values to be updated continuously, counties varied in their adherence to this requirement.[1] Montana remains one of a few states that assesses property statewide.

1973

Chapter 405 assigns the functions of the former State Board of Equalization to the Department of Revenue (property tax administration) and the State Tax Appeal Board (property appeals).

Chapter 512 provides for assessment of agricultural property based on productive value rather than market value.

[1] Greg Petesch and Lee Heiman, "Memo to Joint Meeting of Tax Reform Study Committee and Property Tax Reappraisal Study Committee," Jan. 12, 2004.

1973

Chapter 266 exempts freeport merchandise from taxation.

1974

Chapter 376 exempts from property taxation household goods and personal property used for domestic purposes.

> The 1972 Constitution made significant changes to the administration of the property tax system.

1975

Chapter 209 requires property to be taxed at 40% of market value except net proceeds of mines (class one) is taxed at 100% of net proceeds and agricultural property is taxed based on productive value.

Chapter 294 requires the Department of Revenue to adopt a reappraisal plan at least every 5 years. All property in each county is to be revalued every 5 years or 20% is to be revalued each year. The bill also required uniform appraisal methods so similar property would have similar taxable values.

Chapters 372, 398, 427, and 525 make changes to the classification system and tax rates. See Appendix 1 for historical property classes and tax rates.

1976

Because of litigation in 1975 and 1976, the governor issues an executive order to return property values to 1974 values until the resolution of Supreme Court cases.[2]

1977

Chapter 566 simplifies property tax calculations that previously required two calculations to get to taxable value. The resulting rates were not changed but the "simplification" required the creation of additional classes of property. See Appendix 1 for historical property classes and tax rates.[3]

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[2] Report of the State Department of Revenue July 1, 1976 to June 30, 1978, p. 4.

[3] Report of the State Department of Revenue July 1, 1976 to June 30, 1978, p. 5.

1978-1985: SECOND REAPPRAISAL CYCLE

1979

Chapter 693 again revises the classification system and reduces the residential and commercial tax rate from 12% to 8.55%. The revised classes are the basis for the current classification system. See Appendix 1 for historical property classes and tax rates.

1981

The Legislature extends the reappraisal cycle by 2 years, to end in 1985.

The “34% Controversy” is created when the Department of Revenue uses one manual for apprising residential property and another for appraising commercial property. This results in non-comparable values for class four property across the state.[4]

1983

Chapter 418 increases elementary equalization mills from 25 mills to 28 mills and high school equalization mills from 15 mills to 17 mills.

Chapter 632 creates class twelve for mobile homes used as residences and taxes them at 8.55%, the tax rate for residential property.

1985

Chapter 681 creates class thirteen for forest property with a rate of 3.84%. (Later renumbered to class ten).

Chapter 699 creates class fourteen for improvements on agricultural property and 1 acre beneath the improvement and sets the tax rate at 3.088%. (Later moved to class four.)

Chapter 739 reduces future class three (agricultural), class four (residential/commercial/other), and class twelve (mobile home) rates due to the effects of reappraisal. By July 1, 1986, DOR certifies the change in appraised value and the tax rate is set based on the change, with lower rates corresponding with larger increases. The rate remains in effect until the next reappraisal.

Chapter 743 creates a class for railroad and airline property with a tax rate based on the ratio of commercial property taxable value to commercial property market value. The legislation also moves to a new class with an 11% tax rate: motorcycles, watercraft, all-terrain vehicles, harnesses and saddlery, and personal property not included in another class.

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[4] Petesch and Heiman.

1986-1992: THIRD REAPPRAISAL CYCLE

1986

Initiative 105 passes and limits the amount of taxes levied on certain classes of properties to the amount levied in 1986.

1987

The 1987 Legislature enacts legislation to implement I-105 including the following provisions:

- Limits apply to all classes of property
- Tax rates may not be changed
- Taxing jurisdictions may not increase mill levies
- Taxes for individual properties will not increase
- Limit does not apply to annexation, new construction, RIDs, SIDs, TIFs, debt service, street maintenance districts, and jurisdictions in which taxable value declined by 5% or more.[5]

Chapter 613 requires the Department of Revenue to conduct a sales assessment ratio study to determine the correct assessment level for similar property located throughout the state.

1989

Class four rate tax rate reduced to 3.86%.[6]

Chapter 636 revises sales assessment ratio study procedures, revises reappraisal plan requirements, and extends the reappraisal cycle for 2 years.

Chapter 10, Sp. L. 1989, reduces class eight rate to 9%.

Chapter 11, Sp. L. 1989, enacts 40 mills for state equalization and increases elementary equalization mills from 28 mills to 33 mills and high school equalization mills from 17 mills to 22 mills.

1990

Montana Supreme Court rules adjustments based on sales assessment ratios violate equal protection clause, due process clause, and requirement of uniform appraisal and equalization. (Department of Revenue v. Barron, 245 Mont.100, 799 P.2d 533 (1990)). However, Court allows collection of 1990 taxes on these values.[7]

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[5] Douglas P. Young, "Montana Property Taxes Since Initiative 105 (1996 Update)."
[6] Department of Revenue Biennial Report, July 1, 2012 – June 30, 2014, pages 160-161.
[7] Petesch and Heiman.

1991

Chapter 680 requires stratified sales assessment ratio study and reduces reappraisal cycle from 5 years to 3 years. The Montana Supreme Court holds in 1993 that this change failed to equalize between individual properties (though it may have equalized between areas). Department of Revenue v. Sheehy, 262 Mont. 104, 862 P.2d 1181 (1993).[8]

1992

Department of Revenue completes revaluation for next cycle (begun in 1987) and uses computer-assisted mass appraisal for the first time.

In special session, the Legislature changes the upcoming 3-year reappraisal cycle to 4 years and provides thereafter that reappraisal cycles will be 3 years.

1993-1996: FOURTH REAPPRAISAL CYCLE

1993

A class action lawsuit challenges the use of computer-assisted mass appraisal. In Albright v. State, 281 Mont. 196, 933 P.2d 815 (1997), the Montana Supreme Court reverses the District Court holding that use of more than one approach to value resulted in failure to equalize and states that using multiple approaches to value is a reasonable attempt to equalize.[9]

Chapter 267 links the class three (agricultural) tax rate to the class four (residential/commercial) tax rate.

Chapter 627 adds to class three parcels of 20-160 acres not eligible for classification as agricultural property (later referred to as nonqualified agricultural property).

1995

Chapter 570 revises the class eight tax rate to 7% in 1997 and 6% in 1998 and thereafter.

1997-2002: FIFTH REAPPRAISAL CYCLE

1997

Chapter 463 makes a number of changes including:

[8] Petesch and Heiman.
[9] Petesch and Heiman.

- Phases in changes in reappraisal values by 2% per year for class three, class four, and class ten; phases in the value of new construction; reduces tax rates for class three and class four by 0.022% each year (class three and four to 3.838%)
- Suspends 1997 reappraisal, budget, and tax collection deadlines
- Delays next reappraisal cycle until 2007 for classes three, four, and ten; clarifies that all other property must be valued annually
- Revises limits enacted in I-105 by changing exceptions and changing base year from 1986 to 1996 and provides method for voters to approve a mill levy above the limit

1999

The Supreme Court rules that the phase in of decreases in property values violates the equal protection clause. Roosevelt v. Dept. of Revenue, 1999 MT 30, 293 Mont. 240, 975 P.2d 295 (1999).[10]

Chapter 285 reduces the class eight rate to 3% for tax year 2000 and provides for a further rate reduction based on growth in Montana wage and salary income.

Chapter 584 makes the following changes:

- Enacts 15-10-420 allowing a mill levy sufficient to generate the amount of revenue assessed in the prior year (allows for increase above 1996 limit)
- Reduces class three and four tax rates to 3.794% in 1999 and 0.0835% less each year until it reaches 3.46%
- Creates a homestead exemption of 16% in 1999 (increases each year until 31% in 2002 and after) and comstead exemption of 6.5% in 1999 (increases each year until 13% in 2002 and after)
- Reduces class ten rate (0.79%) by 0.11% each year until it reaches 0.35% of productivity value
- Provides that class three, class four, and class ten values are phased in 25% each year
- Revises reappraisal cycle from 3 years to 6 years, upon which phase-in is 16.66% per year.

2000

Chapter 11, Sp. L. 2000, and Chapter 285, L. 1999, together provide that the class six rate phases down 1% per year and the class is repealed January 1, 2003.

2001

Chapter 361 amends 15-10-420 to authorize the carryforward of mill levy authority if the total authority is not used.

Chapter 574 amends 15-10-420 to allow a mill levy sufficient to raise the amount of revenue raised in the previous year plus half the rate of inflation for the prior 3 years. The legislation also enacts 15-10-425, authorizing an increase

[10] Petesch and Heiman.

of a mill levy or imposition of a new mill levy upon vote of the electors. (Language allowing for a mill levy election is also included in Ch. 495.)

2003-2008: SIXTH REAPPRAISAL CYCLE

2003

Chapter 606 includes the following changes:

- Revises the class three and class four tax rates to 3.4% in 2003 and decreases them each year until 3.01% in 2007 and after
- Revises the homestead exemption to 31% for 2003 and increases it each year until 34% in 2008 and after
- Revises the comstead exemption to 13% in 2003 and increases it each year until 15% in 2008 and after
- Creates the Extended Property Tax Assistance program for properties with extraordinary increases in market value (subject to income requirements).

2005

Chapter 531 removes the phased decrease of the business equipment tax rate based on increases in wage and salary income and provides for an exemption of the first $20,000 in market value.

Chapter 563 creates class fourteen for wind generation facilities with a 3% tax rate.

2007

Chapter 2, Sp. L. May 2007, creates class fifteen for equipment used for close-loop oil recovery, carbon sequestration equipment, clean advanced coal research equipment and renewable energy development equipment granted an abatement, and pipelines used for biogas, biodiesel, biomass, ethanol, and coal gasification with a 3% tax rate. The bill also creates class sixteen for high-voltage direct-current converter stations with a 2.25% tax rate. Finally, the bill adds to class fourteen property of new technology energy, clean coal energy, carbon capture equipment, and transmission lines.

2009-2014 SEVENTH REAPPRAISL CYCLE

2009

Chapter 483 revises tax rates and exemptions as follows:

- Decreases the class three and class four tax rates to 2.93% in 2009 and it decreases each year until 2.47% in 2014 and after
- Decreases the class ten tax rate to 0.34% and it decreases each year until 0.29% in 2013 and after

- Increases the homestead exemption to 36.8% in 2009 and up to 47% for 2014 and after
- Increases the comstead exemption to 14.2% in 2009 and up to 21.5% for tax year 2014 and after

2011

Ch. 411 revises the class eight tax rate to 2% for the first $2 million of market value in excess of the $20,000 exemption (3% for remainder). However, if individual and corporate income tax collections exceed 4% of the revenue estimate, the rate is 1.5% for the first $3 million of market value.

2013

Chapter. 396 exempts the first $100,000 of market value of class eight property and revises the tax rate for the first $6 million after the exemption to 1.5% (remainder taxed at 3%).

2015-2016: EIGHTH REAPPRAISAL CYCLE

2015

Chapter 361 makes significant changes to the reappraisal cycle and tax rates for classes three and four:

- Revises the reappraisal cycle for classes three and four to 2 years
- Separates the class three and class four tax rates and sets the class three rate at 2.16%
- Removes the homestead and comstead exemptions and sets the class four residential tax rate at 1.35% and the class four commercial tax rate at 1.4 times the class four residential rate (1.89%)
- Sets the class ten tax rate at 0.37% (only property remaining on 6-year reappraisal cycle)
- Revises the Property Tax Assistance Program and Disabled Veterans Program to remove annual application requirement for recurring eligibility (taxpayers may have to certify income annually)
- Repeals the Extended Property Tax Assistance Program

2017-2018: NINTH REAPPRAISAL CYCLE

2017

Chapter 438 creates class seventeen for qualified data centers with a 0.9% tax rate and provides for local assessment of data centers and central assessment of dedicated communications infrastructure.

APPENDIX 1: HISTORICAL PROPERTY TAX CLASSES AND RATES

PROPERTY CLASSES AND RATES, 1972[11]

Class	Description	Rate
1	Net proceeds of mines, mining and oil exploration rights	100%
2	Household goods, furniture, apparel; agricultural tools, implements, machinery; engines and boilers; automobiles, trucks, watercraft; telephone poles, lines, transformers, tools, and machinery used to provide service in rural areas	20%
3	Livestock, poultry, merchandise, furniture and fixtures used in offices and by hotels	33 1/3%
4	Land, improvements, mobile homes, manufacturing and mining equipment	30%
5	Money, credits, bonds, warrants, securities; poles, lines, transformers, machinery, and equipment of a rural electric or rural telephone co-op, including those that serve 95% or more of consumers in a city or town; unprocessed agricultural products except products of livestock or poultry; land and improvements owned by a disabled veteran	7%
6	Capital and shares of banks	40%
7	New industrial property (land, buildings, machinery, fixtures) during its first 3 years of operation	7%
8	Improvements or mobile homes valued $17,500 or less and owned by certain widows or widowers subject to income requirements	15%
9	Freeport merchandise (in transit through the state consigned to a storage facility)	1%
10	All other property	40%

PROPERTY CLASSES AND RATES AFTER 1977 CHANGES[12]

Class	Description	Rate
1	Right of entry to explore for oil, gas, coal, or minerals	100%
2	Net proceeds of mines, except coal and metal mines	100%
3	Gross proceeds of coal strip mines	45% of assessed value (100% of gross proceeds)
4	Gross proceeds of underground coal mines	33 1/3% of assessed value (100% of gross proceeds)

[11] Twenty-Fifth Biennial Report of the State Board of Equalization, July 1, 1970 to June 30, 1972, p. 23.

[12] Report of the State Department of Revenue July 1, 1976 to June 30, 1978, p. 5.

Class	Description	Rate
5	Moneyed capital and shares of banks	30% of value not represented by surplus, 7% for surplus
6	Agricultural land	30% of productive value
7	Centrally assessed utility allocations except for rural telephones and cooperatives, property not included in other classes, large trucks and commercial trailers	16%
8	Agricultural and other tools, implements, and machinery; engines, boilers, threshing machines; harness and saddlery	13%
9	Automobiles, trucks, and other vehicles; furniture and fixtures used in offices and hotels	13.3%
10	Ski lifts and ski tows; manufacturing and mining machinery and fixtures, camper trailers and truck campers	12%
11	Land except agricultural land, improvements, mobile homes	12%
12	Boats, watercraft, aircraft, motorcycles, large farm machinery	11%
13	Incremental increase in value of real estate attributable to repairing, maintaining, or improving existing improvements	2.4% first year, 4.8% second year, 7.2% third year, 9.6% fourth year, 12% fifth year and after
14	Property of rural telephone companies, tools and machinery used to repair machines not used for manufacturing or mining, electric and natural gas equipment owned by centrally assessed public utilities, livestock, poultry, and unprocessed products of both	8%
15	Residence and appurtenant land of a widow or widower and someone receiving retirement or disability benefits, subject to income requirements	6%
16	Business inventories, mobile machines used in new industries	4.2%
17	Unprocessed agricultural products except perishable fruits and vegetables and livestock and poultry	3.5%
18	Dwelling and lot owned by a disabled veteran or surviving spouse, property of rural electric or telephone cooperative, air pollution control equipment, new industrial property	2.8%
19	Gross proceeds of metal mines	3% of assessed value (100% of gross proceeds)
	Pickup camper or travel trailer owned and used by someone 60 years or older who is retired, subject to income limits	6%

PROPERTY CLASSES AND TAX RATES AFTER 1979 CHANGES[13]

Class	Description	Rate
1	Net proceeds of mines except coal and metal and right of entry to explore for oil, gas, coal, or minerals	100%
2	Gross proceeds of metal mines Gross proceeds of underground coal mines Gross proceeds of coal strip mines	3% 33 1/3% 45%
3	Agricultural land	30%
4	All land/improvements not included in another class, mobile homes used as dwellings First $35,000 of market value of dwelling and land owned by a widow or retiree	8.55% 4.275%
5	Property of a rural electric or rural telephone co-op Air and water pollution control equipment Truck campers, motor homes, travel trailers owned by person 60+ (income limit) New industrial property	3%
6	Business inventories, unprocessed agricultural products except perishable fruits and vegetables and livestock and poultry	4%
7	Livestock and poultry, rural telephone companies, rural electrical and rural telephone co-ops that serve less than 95% of consumers in a city, tools and machinery used to repair machines not used for manufacturing or mining	8%
8	Agricultural implements and machinery, mining machinery, manufacturing machinery, motorcycles, watercraft, aircraft, snowmobiles and all-terrain vehicles, harness and saddlery	11%
9	Automobiles, buses, trucks weighing 1.5 tons or less, truck campers and toppers, motor homes, furniture and fixtures used in commercial establishments, medical and dental equipment	13%
10	Radio and TV broadcasting equipment, centrally assessed utility allocations, coal and ore haulers, trucks weighing more than 1.5 tons, theater projectors, all property not in another class	16%
11	Centrally assessed electric power companies centrally assessed natural gas companies other centrally assessed allocations	12% 12% 15%

[13] Chapters 693 and 686, L. 1979.

CURRENT PROPERTY CLASS AND RATES

Class	Description	Tax Rate
1	Net proceeds of mines	100%
2	Gross proceeds of metal mines	3%
3	Agricultural land, nonqualified agricultural land, nonproductive patented mining claims	2.16%; nonqualified ag: 15.12%
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%
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
7	Rural electric cooperatives not included in class nine, noncentrally assessed utilities	8%
8	Business equipment	First $100,000 market value exempt, $100,001 to $6 million: 1.5%, Above $6 million: 3%
9	Nonelectric generating property of electric utilities, pipelines	12%
10	Forest land	0.37%
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%
13	Electric generating property of electric utilities and telecommunications utilities	6%
14	Renewable energy production and transmission property	3%
15	Carbon dioxide and liquid pipeline property	3%; 1.5% for carbon sequestration equipment granted an abatement
16	High voltage direct-current converter stations	2.25%
17	Certain qualified data centers, dedicated communications infrastructure for 15 years (after which it's class thirteen)	0.9%

TAX RATES BY CLASS, 1992-2019

The following chart shows tax rates by class for the years 1992-2019 for classes in which the tax rate changed during the period.[14] Prior to 1992, the Legislature sometimes used the same class numbers when revising property classes or creating new classes. That practice makes it difficult to show rate changes before 1992.

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[14] The chart does not include class six, which was repealed in 2003, and classes thirteen through seventeen, which were created after 1992 but for which the rates did not change after creation of the class.