July 2020
HJ 35 Tax Study Committee
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HJ 35-02: CIRCUIT BREAKER BILL

OVERVIEW OF HJ 35-02

The HJ 35 Tax Study Committee approved the drafting of a circuit breaker bill for consideration by the committee. Staff worked with Sen. Barrett to develop the HJ35-02 draft.

HJ35-02 is modeled after the elderly homeowner and renter tax credit but expands the credit to homeowners and renters of all ages. The credit retains the following features of the elderly homeowner and renter credit:

- Refundable income tax credit for property taxes paid in the prior year.
- Uses the same broad definition of income provided for in 15-30-2337.
- Property tax billed includes special assessments and fees but not penalties and interest.
- Rent-equivalent property tax paid is 15% of gross rent.
- Requires the taxpayer to live in Montana for at least 9 months of the tax year.
- Requires occupation in a qualified residence for at least 6 months of the tax year.
- Disallows the credit for property not subject to property taxes, except property rented from a municipal or county housing authority.

The main difference between the current credit and HJ35-02 is the way the credit amount is determined. The elderly homeowner and renter credit is calculated by subtracting an adjusted income figure from property tax billed or rent-equivalent property tax paid and reducing the credit amount if gross income is between $35,000 and $45,000. The credit is not allowed for gross household incomes of $45,000 and above. The maximum credit is $1,000. [1]

HJ35-02 is calculated using the following formula: (property tax billed or rent-equivalent property tax paid * 0.75) - threshold amount.

The 0.75 in the formula indicates there is a 25% copayment. The taxpayer receives relief for 75% of property tax billed or rent-equivalent property tax paid but not for the other 25%.

The threshold amount is applied incrementally based on income, with higher percentages corresponding to higher levels of income. There is no income limit and no maximum credit.

[1] For a detailed discussion of the calculation, see "Elderly Homeowner & Renter Tax Credit," Megan Moore, July 2020.

The credit is a function of income and property tax billed or rent-equivalent property tax paid and naturally phases out as income increases.

The committee may choose to adjust the threshold amount to make the credit more or less generous. A section at the end of the report compares the credit amounts and costs of HJ35-02 with alternative scenarios.

The suggested revisions to the elderly homeowner and renter tax credit are from recommendations of the Lincoln Institute of Land Policy. Their best practices include providing a circuit breaker for homeowners and renters of all ages, requiring a copayment, using a multiple threshold formula applied incrementally, and not placing limits on income or the maximum credit.[2]

SAMPLE CALCULATION OF CIRCUIT BREAKER IN HJ35-02

This section provides sample calculations for different incomes and property tax billed or rent-equivalent property tax paid.

The formula used to determine the credit is in Section 3(2) of HJ35-02:

(Property tax billed or rent-equivalent property tax paid * 0.75) - threshold amount

The threshold amounts are contained in the definition of "threshold amount" in Section 1(12). The percentages apply incrementally for each $20,000 of household income as shown in the table.

Household Income	Marginal Rate
$0-$20,000	2.1%
$20,001-$40,000	5.3%
$40,001-$60,000	8.5%
$60,001-$80,000	11.7%
$80,001-$100,000	14.9%
Above $100,000	18.1%

[2] John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany P. Paquin, "Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers," Lincoln Institute of Land Policy, 2009.

The following examples show how the credit is calculated for four different combinations of household income and property tax paid or rent-equivalent property tax paid. If the calculated credit amount is less than 0, there is no credit.

	Example 1	Example 2	Example 3	Example 4
Household income	$18,000	$40,000	$75,000	$110,000
Property Tax/Rent Equivalent	$900	$2,500	$4,000	$12,000
Threshold amount	(18,000*0.021) = 378	(20,000*.021) + (20,000*.053) = 1,480	(20,000*.021) + (20,000*.053) + (20,000*.085) + (15,000*.117) = 4,935	(20,000*.021) + (20,000*.053) + (20,000*.085) + (20,000*.117) + (20,000*.149) + (10,000*.181) = 10,310
Credit calculation	(900*.75) - 378 = 297	(2,500*.75) - 1,480 = 395	(4,000*.75) - 4,935 = -1,935	(12,000*.75) - 10,310 = -1,310
Credit amount	$297	$395	$0	$0

ESTIMATED FISCAL IMPACT OF HJ 35-02

This section provides an estimated impact of the credit provided for in HJ35-02. The Department of Revenue developed this estimate using the same methodology used for fiscal notes.

HJ35-02 would replace existing property tax programs so the bill repeals the elderly homeowner and renter tax credit contained in 15-30-2337 through 15-30-2341, the property tax assistance program in 15-6-305, the disabled veteran program provided for in 15-6-311, and the intangible land value property exemption in 15-6-240.

The estimated fiscal impact shown in the following table includes estimates for the cost of the credit provided for in HJ35-02 as well as the additional revenue available from the elimination of existing property tax assistance programs.

The property tax assistance program, disabled veteran program, and intangible land value property exemption are reductions in taxable value that shift property taxes to other taxpayers. Elimination of those programs will increase a taxing jurisdiction's total taxable value. The result is increased state revenue from the statewide mills and a reduction in local mill levies because taxing jurisdictions will be able to raise the same amount of revenue from a lower mill levy. The table shows both the additional state revenue and an estimate of the statewide dollar-weighted average mill levy reduction resulting from the repeal of the existing property tax assistance programs.

	General Fund Impact
Credit to property owners	-$26,142,193
Credit to renters	-$17,637,124
Repeal of elderly homeowner and renter credit	$8,459,636
Repeal of property tax assistance program, disabled veteran program, and intangible land value property exemption	$3,099,531
Total impact to General Fund	**-$32,220,150**
Statewide dollar-weighted average mill levy reduction	5.5 mills

HJ35-02 VS. ALTERNATIVE SCENARIOS: FISCAL IMPACT & EXAMPLE CREDIT AMOUNTS

	General Fund Fiscal Impact	Credit Amount			
		Example 1 Income: $18,000 Tax: $900	**Example 2** Income: $40,000 Tax: $2,500	**Example 3** Income: $75,000 Tax: $4,000	**Example 4** Income: $110,000 Tax: $12,000
Scenario 1 $0-$20,000: 3.1% $20,001-$40,000: 6.3% $40,001-$60,000: 9.5% $60,001-$80,000: 12.7% $80,001-$100,000: 15.9% Above $100,000: 19.1%	-$22,199,893	$117	$0	$0	$0
Scenario 2 $0-$20,000: 2.6% $20,001-$40,000: 5.8% $40,001-$60,000: 9% $60,001-$80,000: 12.2% $80,001-$100,000: 15.4% Above $100,000: 18.6%	-$26,827,498	$207	$195	$0	$0
HJ35-02 $0-$20,000: 2.1% $20,001-$40,000: 5.3% $40,001-$60,000: 8.5% $60,001-$80,000: 11.7% $80,001-$100,000: 14.9% Above $100,000: 18.1%	-$32,220,150	$297	$395	$0	$0

	General Fund Fiscal Impact	**Credit Amount**			
		Example 1 Income: $18,000 Tax: $900	**Example 2** Income: $40,000 Tax: $2,500	**Example 3** Income: $75,000 Tax: $4,000	**Example 4** Income: $110,000 Tax: $12,000
Scenario 3 $0-$20,000: 1.7% $20,001-$40,000: 4.9% $40,001-$60,000: 8.1% $60,001-$80,000: 11.3% $80,001-$100,000: 14.5% Above $100,000: 17.7%	-$37,196,820	$369	$555	$0	$0
Scenario 4 $0-$20,000: 1.5% $20,001-$40,000: 3.5% $40,001-$60,000: 5.5% $60,001-$80,000: 7.5% $80,001-$100,000: 9.5% Above $100,000: 11.5%	-$49,322,627	$405	$875	$0	$2,350