

MEMORANDUM

TO: Senator Greg Hertz

FROM: Dylan Cole, Tax Policy and Research

DATE: September 21, 2021

RE: Out-of-State Mailing Addresses for Residential Property Owners in Montana

The analysis contained in this memo attempts to address the question: “Have more out-of-state buyers been purchasing property in Montana in recent years”. The supplemental tables are integral to understanding the content of the memo.

The master files for property tax contain information on mailing address for the owner of the property to send appraisal and classification notices. The department also provides this data to the local county government to send notices of taxes owed. I combined tax years 2016 through 2021 to see if a trend was present in the data. The dataset was filtered on class 4 residential property, then combined by assessment code. This ties improvements to land of the same owner. I created an indicator for in-state mailing address, out-of-state, or blank. The tables contain basic summaries by year of out-of-state vs in-state market value, taxable value, and count of unique properties.

As noted in the tables, the blank addresses for tax years 2020 and 2021 are almost exclusively for foreign country ownership (which is often Canada). Prior years to this also seem to include missing mailing addresses. The percentage of properties with a blank state mailing address is much higher in earlier years, and both out-of-state and in-state counts jump discretely in tax year 2020 when there is no longer that noise in the data. This does make it somewhat difficult to draw more aggressive conclusions, so I also included Table 2, which discards all records with blank state fields. The Table 2 analysis undercounts out-of-state owners since about half a percentage point of class 4 residential property in Montana is owned by people from out of the country.

As is borne out in both tables, the counts of property owned by out-of-state individuals is relatively constant over time. What does show significant trends is the increasing share of market and taxable value owned by these out-of-state mailing addresses. This strongly suggests that out-of-state property owners tend to own wealthier properties and that trend is increasing. This is further noted by out-of-state owners having a larger share of the taxable value than the market value. This is likely caused by two things:

- Out-of-staters are a larger share of properties subject to 15-6-134(3)(b) which is the 1.4 incremental multiplier for property value in excess of \$1.5 million.
- Out of staters are a smaller share of properties eligible for the Property Tax Assistance Program (PTAP) or the Montana Disabled Veterans Program (MDV).

Indeed, the average taxable value ratio for out-of-state owners is 1.44%, as compared to the average taxable value ratio for in-state owners at 1.32% in TY 2021. It can be further noted that average tax rates have increased over time for out-of-state owners, while in-state has remained relatively constant.

Several weaknesses of this approach have already been noted, but here are a few more:

- Sometimes properties are separated in multiple parcels, even though its contiguous land under one owner. This dilutes the accuracy of the count of unique properties.
- Ownership may be shared between an in-state and out-of-state owner, especially for something like a cabin. My intuition tells me often the in-state owner would be more likely to receive the mailing for this scenario.
- Finally, many out-of-state owners may list the mailing address at the property they own, even if it is not their primary address. This is the largest inherent flaw that this analysis cannot overcome.

Overall, there is not sufficient evidence to suggest a significant shift from in-state ownership to out-of-state ownership of class 4 residential property over the past six years. However, the property owned by out-of-state taxpayers represents a larger portion of total market and taxable value within the state over that same time period, suggesting that the wealthiest properties in Montana are often owned by out-of-state buyers.