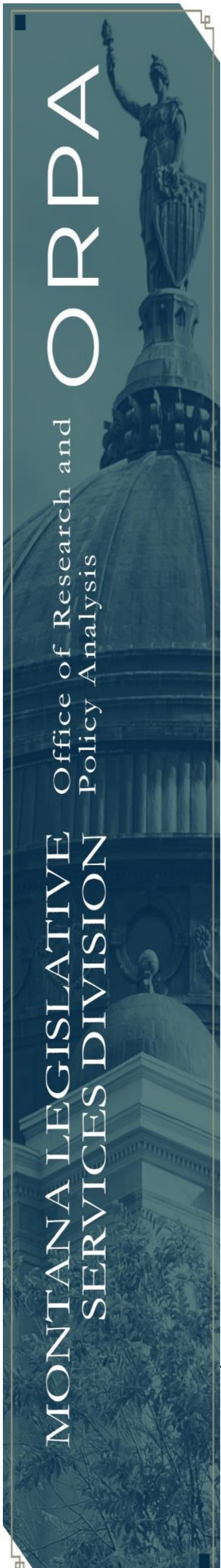

September 2022

Revenue Interim Committee
Megan Moore

HJ 36: UPDATED RESIDENTIAL PROPERTY TAX RELIEF OPTIONS

BACKGROUND

The Revenue Interim Committee considered options for providing property tax relief for residential property at the June meeting.[1] This document updates portions of that analysis.

> This is an update to the June document that estimated fiscal impacts of expanding the property tax assistance program and the homeowner and renter credit.

Taxes on residential property account for half of Montana property tax revenue.

This document provides options to revise existing property tax relief programs to make them more generous or available to additional taxpayers.[2] Two options would revise the property tax assistance program: one to increase the limit on a property's market value and the other to revise the income limits. Other options would extend the elderly homeowner and renter credit to taxpayers under the age of 62 and expand the maximum credit.

Expanding the property tax assistance program (PTAP) results in shifts to taxpayers not eligible for the program and some reduction in state revenue. Increased access to the elderly homeowner and renter credit, on the other hand, reduces general fund revenue.

The two programs also interact so a more generous PTAP, which decreases taxable value, results in a smaller impact to the general fund from the homeowner and renter credit, which is based on taxes paid. If the committee combines options that include PTAP and

[1] Megan Moore, "HJ 36: Residential Property Tax Relief Options," June 2022.
[2] Staff developed the options based on the committee discussion and consultations with Department of Revenue economists Ed Caplis, Dylan Cole, and Aaron McNay. Dylan Cole modeled the policy options and provided the cost estimates

the homeowner and renter credit, the total reduction in state revenue is expected to be less than a sum of the two estimates.

PROPERTY TAX ASSISTANCE PROGRAM OPTIONS

The property tax assistance program (PTAP), provided for in 15-6-305, MCA, reduces the taxable value for the primary residence of citizens with limited or fixed incomes. The reduced taxable value results in lower property tax payments for program participants.

The taxable value is reduced by multiplying the 1.35% residential tax rate by a percentage multiplier based on adjusted gross income excluding capital and income losses. The reduced tax rate applies only to the first $200,000 in market value.

PROPERTY TAX ASSISTANCE PROGRAM ELIGIBILITY[3], 2022

Income – Single	Income – Married or Head of Household	Percentage Multiplier
$0 - $9,354	$0 - $12,472	20%
$9,355 - $14,344	$12,473 - $21,829	50%
$14,345 - $23,385	$21,828 - $31,181	70%

OPTION 1: INCREASE PTAP MARKET VALUE LIMIT

Raising the market value to which PTAP applies would provide more relief to taxpayers with market values above $200,000 by reducing the tax rate for a greater share of the market value. Two ways to think about whether to increase the market value limit and by how much are to compare to prior years using the percentage of properties with market values below $200,000 and the median market value as a ratio of the maximum market value to which PTAP applies.

In 2015, more than three-quarters (81%) of PTAP claimants had market values below $200,000, but that number dropped to 60% in 2021 and is estimated to fall to 43% in 2023.[4] A market value limit between $350,000 and $400,000 for tax year 2023 is estimated to cover the entire market value for an equivalent percentage of PTAP claimants.

[3] The qualifying income levels are adjusted annually for inflation.
[4] The $200,000 market value limit went into effect in 2015 when the Legislature enacted a 2-year residential reappraisal cycle.

PROPERTY VALUE RELATIONSHIP TO MARKET VALUE LIMIT, 2015-2023[5]

Year	Properties with Market Value Below $200,000	Median Market Value	Ratio of Median Market Value to $200,000	Market Value Limit to Achieve 2015 Ratio
2015	81%	$124,200	62%	$200,000
2017	76%	$135,100	68%	$217,552
2019	69%	$148,800	74%	$239,613
2021	60%	$172,100	86%	$277,134
2023 *(estimated)*[6]	43%	$225,582	113%	$363,256

Another approach to setting the market value limit is to compare the ratio of median market value to $200,000, the current market value limit. In 2015, that ratio was 62% and it is estimated to be 113% in 2023. A market value limit of $363,256 is estimated to result in the same ratio (62%) of median market value to market value limit in 2023 as in 2015.

ESTIMATED FISCAL IMPACTS OF INCREASING MARKET VALUE LIMIT

The following table shows the estimated fiscal impact from increasing the market value limit. The additional fiscal impact on the left side of the table is similar to the information that would be included in a fiscal note on proposed legislation. The total fiscal impact is included on the right to provide a more complete idea of the potential program cost.

Because PTAP reduces the taxable value of residential property, much of the fiscal impact is shifts to other taxpayers in the same taxing jurisdictions due to the workings of the levy limit in 15-10-420, MCA. However, the state will also collect less revenue from the 95 mills for K-12 education, the 6-mill university levy, and the 1.5-mill vocational-technical education levy.

A market value limit between $350,000 and $400,000 would likely keep pace with increases in residential property values. However, if the goal is to provide increased relief to claimants with higher market values, the committee may consider setting the maximum market value at $400,000 or more.

[5] Analysis provided via email by Dylan Cole, Department of Revenue, May 24, 2022.
[6] The estimated residential property value growth rate is 31%.

PROPERTY TAX ASSISTANCE PROGRAM OPTION 1: ESTIMATED FISCAL IMPACTS (UPDATED)[7]

	Additional Fiscal Impact				Total Fiscal Impact				
Market Value Limit	Tax Shifts	Loss in State Revenue	Total Benefit	Avg. Benefit	Tax Shifts	Loss in State Revenue	Total Benefit	Avg. Benefit	Properties Below MV Limit
$300,000	$4,629,246	$871,210	$5,500,456	$245	$22,157,979	$4,170,063	$26,328,041	$1,172	69%
$350,000	$5,982,015	$1,125,797	$7,107,812	$316	$23,510,748	$4,424,650	$27,935,397	$1,244	79%
$400,000	$6,895,228	$1,297,660	$8,192,888	$365	$24,423,960	$4,596,514	$29,020,474	$1,292	86%
$450,000	$7,497,329	$1,410,974	$8,908,303	$397	$25,026,061	$4,709,827	$29,735,888	$1,324	91%
$500,000	$7,905,347	$1,487,762	$9,393,109	$418	$25,434,080	$4,786,615	$30,220,694	$1,345	94%

OPTION 2: INCREASE PTAP INCOME LIMITS

Another option for providing residential property tax relief is to modify the property tax assistance program to increase income limits. Depending how the increases are structured, revised income limits could provide greater benefits to claimants already eligible for PTAP and could expand eligibility to additional taxpayers.

Because the committee did not offer guidelines for increasing income limits, staff developed the increases using federal poverty guidelines adopted by the U.S. Department of Health and Human Services.[8]

The increase is calculated so that the federal poverty level (FPL) for a single person is the limit for the lowest income bracket and the other two brackets are increased by the same amount as the difference between the current lowest income level and the FPL level. The same method is used for the married or head of household income levels using the FPL for a two-person household. The following table shows the current income limits and those for 100% FPL and for 125% FPL.

[7] Cost estimates provided via email by Dylan Cole, Department of Revenue, Aug. 2, 2022.
[8] "HHS Poverty Guidelines for 2022," available from https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines, accessed May 31, 2022.

PROPERTY TAX ASSISTANCE PROGRAM POSSIBLE INCOME LIMIT INCREASES

Income – Single			Income – Married or Head of Household			Percentage Multiplier
Current	**100% FPL**	**125% FPL**	**Current**	**100% FPL**	**125% FPL**	
$0 - $9,354	$0 - $13,590	$0 - $16,988	$0 - $12,472	$0 - $18,310	$0 - $22,888	20%
$9,355 - $14,344	$13,591 - $18,580	$16,989 - $21,978	$12,473 - $21,829	$18,311 - $27,667	$22,889 - $32,245	50%
$14,345 - $23,385	$18,581 - $27,621	$21,979 - $31,019	$21,828 - $31,181	$27,668 - $37,019	$32,246 - $41,597	70%

Increasing the income limits for PTAP based on the 100% FPL scenario is estimated to increase benefits by more than $6.9 million and to increase program participation by 6,511 participants. For 125% FPL, the benefit increase is $12.5 million, and participation is expected to increase by 11,685. Much of the fiscal impact of increasing PTAP income limits will be shifts to other taxpayers, though there will also be a loss in state revenue.

PTAP OPTION 2: ESTIMATED FISCAL IMPACTS (UPDATED)[9]

Additional Fiscal Impact					
	Participants	**Tax Shifts**	**Loss in State Revenue**	**Total Benefit**	**Avg. Benefit**
100% FPL	6,511	$5,825,637	$1,096,367	$6,922,004	$31
125% FPL	11,685	$10,490,874	$1,974,350	$12,465,224	$48
Total Fiscal Impact					
	Participants	**Tax Shifts**	**Loss in State Revenue**	**Total Benefit**	**Avg. Benefit**
Current Law	22,464	$17,528,732	$3,298,853	$20,827,585	$927
100% FPL	28,975	$23,354,369	$4,395,220	$27,749,589	$958
125% FPL	34,149	$28,019,607	$5,273,203	$33,292,810	$975

OPTIONS 1 & 2: PTAP COMBINED FISCAL IMPACTS

[9] Estimates provided via email by Dylan Cole, Department of Revenue, Aug. 2, 2022. Fiscal impacts are based on the percentage of income tax participants with incomes under current PTAP income limits adjusted for the possible increases in income limits and for an estimated residential property value growth rate of 31%.

The following table shows the combined estimated cost of increasing the market value limit and increasing income limits. The top of the table shows the additional fiscal impact similar to what would appear on a fiscal note and the bottom part of the table shows the total fiscal impact.

PTAP OPTIONS 1 & 2: COMBINED ESTIMATED FISCAL IMPACTS (NEW)[10]

Additional Fiscal Impact							
Market Value Limit	**Income Limit**	**Tax Shifts**	**Est. Mill Shifts**	**Loss in State Revenue**	**Total Benefit**	**Avg. Benefit**	**Properties Below MV Limit**
$200,000 Current law	Current law	-	-	-	-	-	43%
	100% FPL	$5,825,637	1.45	$1,096,367	$6,922,004	$31	
	125% FPL	$10,490,874	2.62	$1,974,350	$12,465,224	$48	
$300,000	Current law	$4,629,246	1.15	$871,210	$5,500,456	$245	69%
	100% FPL	$11,929,939	2.98	$2,245,178	$14,175,116	$281	
	125% FPL	$17,775,201	4.43	$3,345,238	$21,120,439	$301	
$350,000	Current law	$5,982,015	1.49	$1,125,797	$7,107,812	$316	79%
	100% FPL	$13,705,951	3.42	$2,579,417	$16,285,369	$354	
	125% FPL	$19,889,715	4.96	$3,743,183	$23,632,898	$375	
$400,000	Current law	$6,895,228	1.72	$1,297,660	$8,192,888	$365	86%
	100% FPL	$14,904,482	3.72	$2,804,977	$17,709,459	$403	
	125% FPL	$21,316,440	5.32	$4,011,688	$25,328,128	$424	
$450,000	Current law	$7,497,329	1.87	$1,410,974	$8,908,303	$397	91%
	100% FPL	$15,691,687	3.91	$2,953,127	$18,644,814	$435	
	125% FPL	$22,251,623	5.55	$4,187,686	$26,439,310	$457	
$500,000	Current law	$7,905,347	1.97	$1,487,762	$9,393,109	$418	94%
	100% FPL	$16,224,799	4.05	$3,053,457	$19,278,256	$457	
	125% FPL	$22,884,737	5.71	$4,306,837	$27,191,573	$479	

[10] Cost estimates provided via email by Dylan Cole, Department of Revenue, Aug. 2, 2022.

Total Fiscal Impact							
Market Value Limit	**Income Limit**	**Tax Shifts**	**Est. Mill Shifts**	**Loss in State Revenue**	**Total Benefit**	**Avg. Benefit**	**Properties Below MV Limit**
$200,000 Current law	Current law	$17,528,732	4.37	$3,298,853	$20,827,585	$927	43%
	100% FPL	$23,354,369	5.82	$4,395,220	$27,749,589	$958	
	125% FPL	$28,019,607	6.99	$5,273,203	$33,292,810	$975	
$300,000	Current law	$22,157,979	5.53	$4,170,063	$26,328,041	$1,172	69%
	100% FPL	$29,458,671	7.35	$5,544,031	$35,002,702	$1,208	
	125% FPL	$35,303,934	8.80	$6,644,091	$41,948,025	$1,228	
$350,000	Current law	$23,510,748	5.86	$4,424,650	$27,935,397	$1,244	79%
	100% FPL	$31,234,683	7.79	$5,878,271	$37,112,954	$1,281	
	125% FPL	$37,418,447	9.33	$7,042,036	$44,460,483	$1,302	
$400,000	Current law	$24,423,960	6.09	$4,596,514	$29,020,474	$1,292	86%
	100% FPL	$32,433,214	8.09	$6,103,830	$38,537,045	$1,330	
	125% FPL	$38,845,172	9.69	$7,310,541	$46,155,713	$1,352	
$450,000	Current law	$25,026,061	6.24	$4,709,827	$29,735,888	$1,324	91%
	100% FPL	$33,220,420	8.28	$6,251,980	$39,472,400	$1,362	
	125% FPL	$39,780,356	9.92	$7,486,540	$47,266,895	$1,384	
$500,000	Current law	$25,434,080	6.34	$4,786,615	$30,220,694	$1,345	94%
	100% FPL	$33,753,532	8.42	$6,352,310	$40,105,842	$1,384	
	125% FPL	$40,413,469	10.08	$7,605,690	$48,019,159	$1,406	

HOMEOWNER AND RENTER CREDIT OPTIONS

Montana currently offers an income tax credit for elderly homeowners and renters age 62 or older. The credit is available to those who reside in Montana at least 9 months of the year and who live in an eligible residence for at least 6 months of the year. The credit is based on property taxes paid or rent equivalent property taxes, which is 15% of gross rent. The maximum credit is $1,150 and it may be refunded if it exceeds the taxpayer's tax liability.

The credit is calculated using a multiple-threshold formula and is available to households with gross household income below $45,000. For taxpayers with gross household income below $35,000, the amount of the credit is equal to the amount by which property taxes exceed a percentage of income that ranges from 0.6% to 5% of income.

Households with gross household income above $35,000 receive a reduced credit, ranging from 40% to 10% of the calculated credit.

OPTION 3: EXPAND HOMEOWNER AND RENTER CREDIT

The Department of Revenue modeled four options for expansion of the homeowner and renter credit.[11] The options are summarized in the following table and additional details about the options appear after the table.

SUMMARY OF HOMEOWNER AND RENTER CREDIT OPTIONS

Option	Summary	Estimated Loss in State Revenue
A	Expand homeowner/renter credit to all ages	$35,962,976
B	Expand homeowner/renter credit to all ages and increase maximum credit to $1,300	$39,558,476
C	Expand homeowner/renter credit to all ages with 20% copay for under age 62	$31,540,339
D	Expand homeowner/renter credit to all ages with 20% copay for under age 62 and increase maximum credit to $1,300	$34,505,880

OPTION 3A: EXPAND HOMEOWNER/RENTER CREDIT TO ALL AGES

Expanding the homeowner and renter credit to all taxpayers would provide an estimated $36 million in property tax relief to 33,128 homeowners and 15,278 renters.

Because the other homeowner and renter credit options do not revise eligibility requirements, they are all estimated to provide property tax relief to an additional 48,406 Montanans.

OPTION 3B: INCREASE MAXIMUM CREDIT TO $1,300 & ALL AGES

This option would expand the maximum credit for those age 62 and older and for newly eligible younger taxpayers alike, by setting the maximum credit at $1,300. The estimated general fund cost is $39.6 million.

[11] Estimates provided via email by Dylan Cole, Department of Revenue, June 3, 2022. Estimate for homeowners is from matching income tax and property tax records and for renters is from applying credit usage data for renters age 62 and older to renters under age 62.

The 2021 Legislature made the elderly homeowner and renter credit more generous by increasing the reduction from gross household income and increasing the maximum credit from $1,000 to $1,150. Data on the fiscal impacts of the 2021 changes is not yet available.

OPTION 3C: EXPAND TO ALL AGES WITH COPAY FOR UNDER 62

Another option is to expand the homeowner and renter credit to all taxpayers but to require a 20% copayment for taxpayers under age 62. This option reduces the estimated property tax relief to $31.5 million.

OPTION 3D: INCREASE MAX TO $1,300 & 20% COPAY FOR UNDER 62

Combining the options of a $1,300 maximum credit with a 20% copayment for taxpayers under age 62 is estimated to cost the general fund $34.5 million.

INCOME ANALYSIS OF EXPANDING HOMEOWNER AND RENTER CREDIT

The Department of Revenue prepared an analysis of how expansion of the homeowner and renter credit could impact taxpayers of different income levels.[12] The data provided is only for homeowners, but similar trends are expected for renters.

Because the credit is available only to taxpayers with gross household income of less than $45,000, most of the of the benefit is provided to taxpayers in the first two income deciles.

Decile		Income Level		Count	Avg. Household Income	Median Household Income	Avg. Market Value	Avg. Taxable Value	Avg. Property Taxes	Simple 2EC Expansion Credit Amt.	1300 Credit Limit Amt.	Nonelderly 20% Copay Amt.	1300 Credit Limit + Nonelderly CoPay Amt.
Min	Max	Min	Max										
0%	10%	$0	$30,021	22,449	$19,003	$20,578	$193,936	$2,252	$1,643	$16,061,777	$17,524,902	$15,273,760	$16,537,756
10%	20%	$30,021	$43,986	22,924	$37,207	$37,286	$193,263	$2,387	$1,790	$7,283,937	$7,648,472	$6,685,186	$6,989,131
20%	30%	$43,986	$57,318	22,923	$50,666	$50,696	$204,221	$2,625	$1,968	$107,612	$107,762	$106,230	$107,300
30%	40%	$57,318	$70,767	22,924	$64,008	$64,032	$218,081	$2,871	$2,157	$0	$0	$0	$0
40%	50%	$70,767	$85,318	22,925	$77,906	$77,821	$233,416	$3,107	$2,339	$0	$0	$0	$0
50%	60%	$85,318	$101,561	22,924	$93,222	$93,123	$247,500	$3,312	$2,493	$0	$0	$0	$0
60%	70%	$101,561	$121,529	22,923	$111,022	$110,778	$267,320	$3,584	$2,696	$0	$0	$0	$0
70%	80%	$121,529	$150,453	22,925	$134,861	$134,284	$290,792	$3,911	$2,915	$0	$0	$0	$0
80%	90%	$150,453	$214,204	22,923	$176,596	$173,860	$329,024	$4,429	$3,269	$0	$0	$0	$0
90%	95%	$214,204	$316,843	11,462	$255,446	$250,878	$387,404	$5,224	$3,767	$0	$0	$0	$0
95%	99%	$316,843	$856,574	9,169	$472,817	$430,604	$501,217	$6,804	$4,721	$0	$0	$0	$0
99%	100%	$856,574	And Up	2,293	$3,166,202	$1,358,592	$872,016	$12,394	$7,056	$0	$0	$0	$0
Total				228,761	$136,192	$78,497	$265,984	$3,507	$2,576	23,453,327	$25,281,137	$22,065,176	$23,634,187

The following graph shows effective tax rates by decile for taxpayers under current law and how they are estimated to change under the four homeowner and renter credit options.

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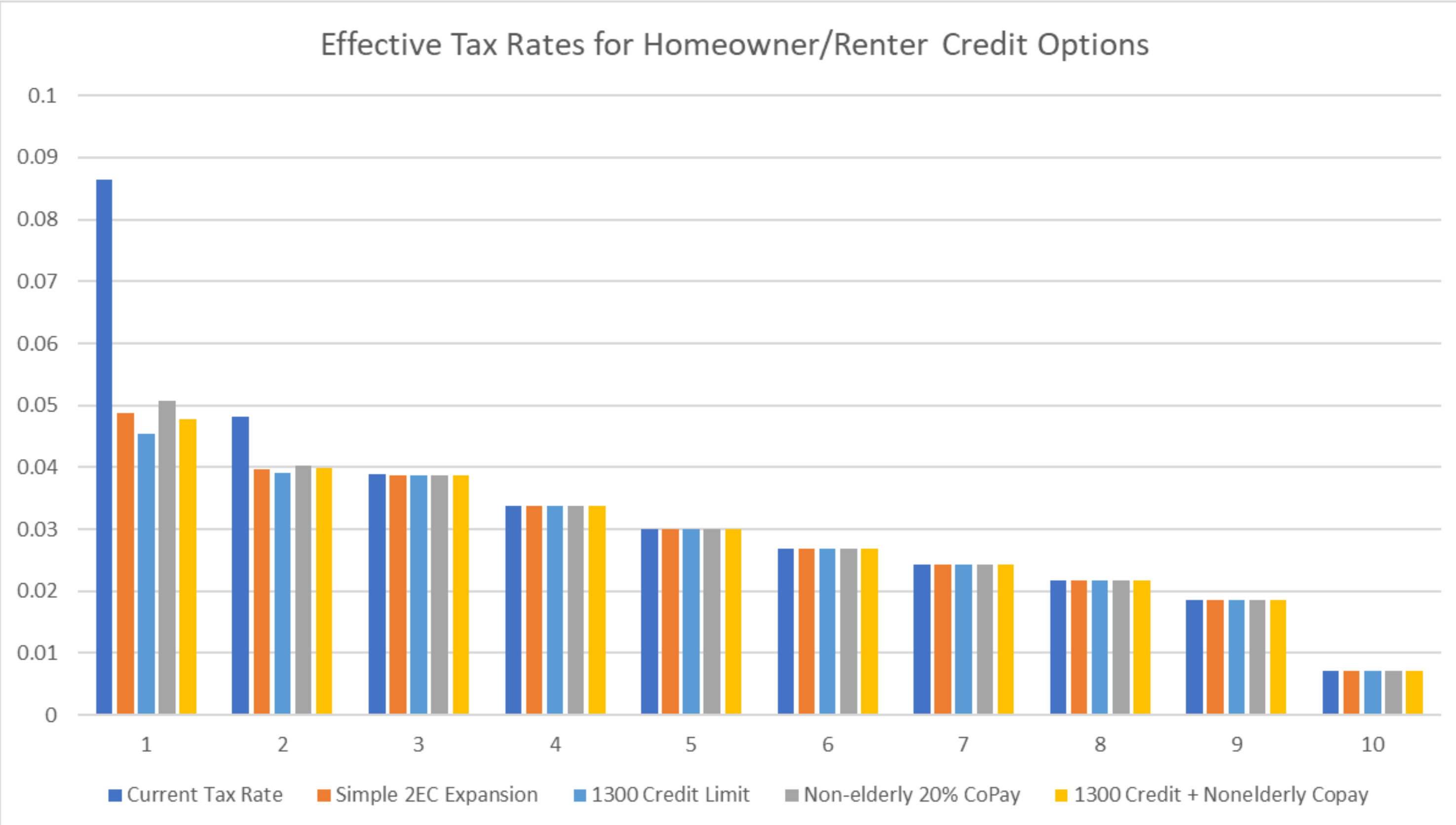
[12] Table and graph provided via email by Dylan Cole, Department of Revenue, June 3, 2022.


Effective Tax Rates for Homeowner/Renter Credit Options
0.1
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7
8
9
10
Current Tax Rate
Simple 2EC Expansion
1300 Credit Limit
Non-elderly 20% CoPay
1300 Credit + Nonelderly Copay