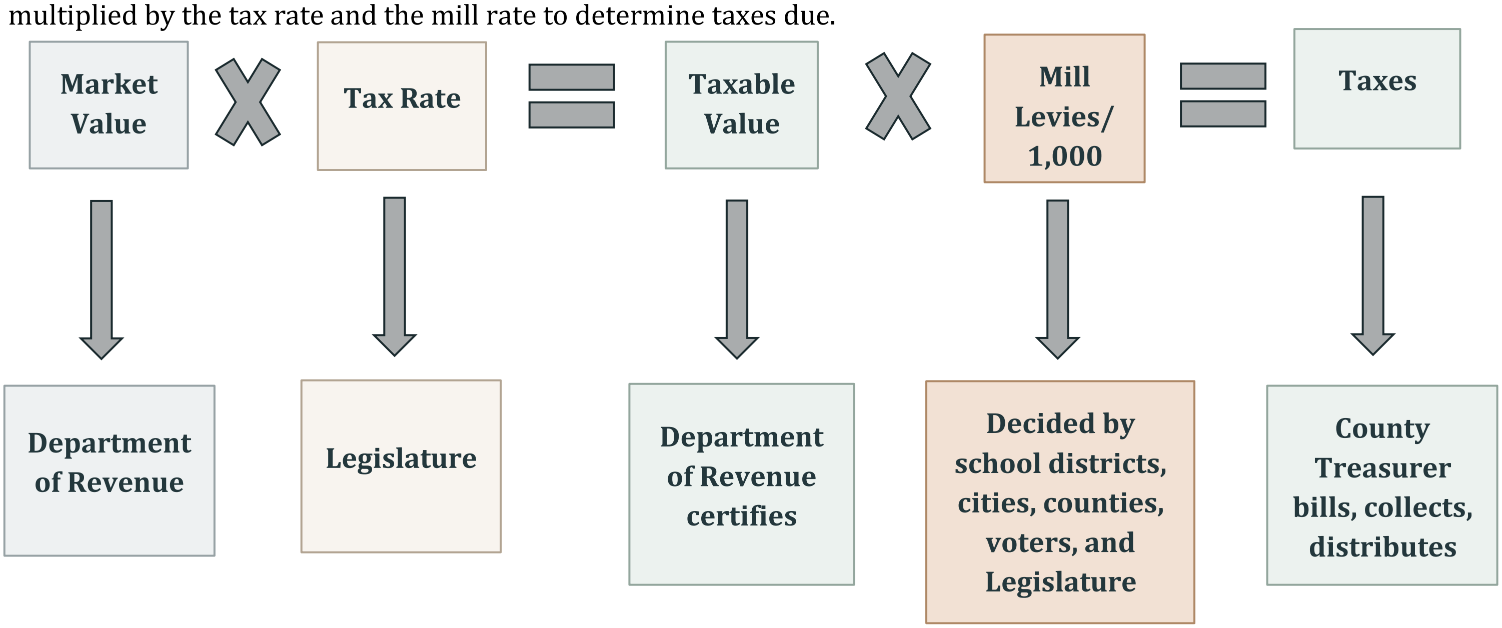
PROPERTY TAX OVERVIEW

MONTANA LEGISLATURE
OFFICE OF RESEARCH & POLICY ANALYSIS

REVENUE INTERIM COMMITTEE
MEGAN MOORE - SEPTEMBER 2023

HOW ARE PROPERTY TAXES CALCULATED?

The property tax is an **ad valorem tax**, meaning it is based on the value of the property. The property value is multiplied by the tax rate and the mill rate to determine taxes due.



State law provides for the state's property tax policy, but other parties play a role in implementing the policy and determining actual tax bills. The Department of Revenue determines the **market value** of all properties in the state, applies the **tax rate** set in state law, and provides the resulting **taxable values** to taxpayers and **taxing jurisdictions**.

Taxing jurisdictions include the state, cities, counties, school districts, and **special districts**. These entities set mill levies based on their budgets. One **mill** raises $1 per $1,000 of taxable value.

Mill levies for each taxing jurisdiction in which a property tax is located are summed, divided by 1,000, and multiplied by taxable value to determine taxes due. The county treasurer issues tax bills, collects tax payments, and distributes tax revenue to each taxing jurisdiction.

DEPARTMENT OF REVENUE VALUES PROPERTY

The Montana Constitution requires property appraisal to occur at the state level. Most other states use county-level appraisers.

> Article VIII, Section 3: The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

Montana law directs the Department of Revenue (DOR) to appraise property at 100% of market value, with a few exceptions. Agricultural property and forest land are valued based on the productive capacity of the property.

The Department of Revenue uses three approaches for valuing property.

Sales comparison

- Uses arm's length sales of like property with adjustments for property characteristics
- For residential and commercial property

Cost

- Uses the original cost of the property less depreciation
- Information from business records
- For commercial and industrial property
- May be used for residential if no sales data

Income

- Uses income generated from property divided by the rate of return expected from investment property
- Information from income statements and financial markets
- For commercial and industrial property
- Modified income approach used for agricultral and forest property

Residential, commercial, and agricultural property is valued every 2 years. Laws enacted by the 2023 Legislature will also provide for a 2-year valuation cycle for forest land and certain centrally assessed property. All other property is valued annually.

Forest land is currently valued every 6 years and will shift to the 2-year valuation cycle beginning in 2025.

In tax year 2024, some centrally assessed property will move from annual revaluation to a 2-year valuation cycle. **Centrally assessed property** is property operated as a single and continuous property, either because the property is physically connected or because the property is functionally operated as a single entity. Examples of centrally assessed property include telecommunication utilities and pipelines.

Moving to a 2-year reappraisal cycle allows DOR more time to value complex property. The following centrally assessed property will still be revalued annually: railroad property, net proceeds of mines other than bentonite mines, gross proceeds of coal mines, and state property held under contractor for sale or lease. DOR will value all other centrally assessed property every 2 years, with different types of property split between even years and odd years.

Once each valuation cycle and generally in June, DOR provides property owners a classification and appraisal notice that shows a property's value. If new construction changes a property's value during a 2-year reappraisal cycle, the property owner will receive a notice in the second year as well.

CLASSES OF PROPERTY DETERMINE TAX RATES

Montana uses a classification system to set property tax rates based on the use of the property.

Class	Description	Rate
1	Net proceeds of mines	100%
2	Gross proceeds of metal mines	3%
3	Agricultural land/non-qualified agricultural land	2.16%/15.12%
4	Residential/commercial, industrial	1.35%[1]/1.89%
5	Rural electric cooperatives not in class 7, rural telephone co-ops, pollution control/carbon capture equipment[2], property to furnish telecommunications in rural areas	3%
7	Rural electric cooperatives not included in class nine, noncentrally assessed utilities	8%
8	Business personal property	First $300,000 exempt,[3] next $6M, 1.5%; above $6M, 3%
9	Non-electric generating property of electric utilities, pipelines	12%
10	Forest land	0.29% in 2023 0.27% in 2024 0.37% after 2024
12	Railroad and airline property	3.06% in 2022[4]
13	Electric generating property, 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 with an abatement
16	High voltage direct-current converter stations	2.25%
17	Certain qualified data centers, dedicated communications infrastructure for 15 years (class 13 after)	0.9%
18	Green hydrogen facility, pipeline, or storage system property with construction beginning after 6/1/21	1.5% for 15 years after construction or 15 years after additional investment of $25 million, 3% after

[1] The value of a residence in excess of $1.5 million is taxed at 1.89%.
[2] Pollution control and carbon capture equipment placed into service after January 1, 2014, is exempt.
[3] Beginning in tax year 2024, the first $1 million is exempt.
[4] Rate is the lesser of the taxable value of commercial property divided by the market value of commercial property or 12%.

LEGISLATIVE SERVICES DIVISION

TAXABLE VALUES CERTIFIED IN AUGUST

State law requires the Department of Revenue to certify taxable values to taxing jurisdictions by the first Monday in August. The statement must include an estimate of the taxable value of newly taxable property.

Taxing jurisdictions use certified taxable values to calculate mill levies that will ultimately appear on tax bills.

HOW ARE MILL LEVIES SET?

State, county, and school district mills are levied on all property subject to taxation in Montana. Cities and special districts also impose property taxes on property within their boundaries.

State law specifies mill levies for K-12 equalization and the university system. County, city, and special district property tax levies are authorized in state law, but the mills levied depend on decisions of each taxing jurisdiction. Local school district mills include a mix of mills required by the school funding formula and mill reflecting decisions of local school districts.

A special district is a unit of local government authorized by law to perform a single function or a limited number of functions. Many special districts assess fees rather than a mill levy.

STATE LEVIES FUND K-12 EQUALIZATION AND UNIVERSITIES

The state levies property taxes for K-12 **equalization** and university education, with specific mill levies listed in statute.

- **The 95 mills**: 33 mills for county elementary equalization (20-9-331), 22 mills for county high school equalization (20-9-333), and 40 mills for state equalization (20-9-360);
- 6 mills for the state university system (15-10-109); and
- 1.5 mills for vocational-technical education levied only in Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone Counties (20-25-439).

The 95 mills are currently deposited in the state general fund and distributed to schools and counties as state equalization aid. Beginning in fiscal year 2025, House Bill 587 requires the deposit of the 95 mills in the school equalization and property tax reduction account. If the revenue forecast for the 95 mills differs from the prior year forecast amount by $2 million or more, state equalization aid is adjusted up or down based on whether the forecast reflects an increase or decrease.

Voters approved the most recent legislative referendum for a 6-mill levy to support the university system in 2017. The levy terminates December 31, 2028. Funds are deposited in a state special revenue account.

The 1.5 mills levied for vocational-technical education are deposited in the general fund but must be distributed for vocational-technical education based on the Board of Regents budget.

STATUTE AUTHORIZES CITY, COUNTY, AND LOCAL SCHOOL DISTRICT LEVIES

Some statutes provide broad authority to levy property taxes for public and governmental purposes, while other laws allow property taxes for specific purposes.

Most authority to levy property taxes is **permissive**, which means that the governing body of the district can impose the property tax without submitting the question of whether to levy the tax to voters.

Contrast this with a **voted levy**, which must be approved by a majority of voters within the taxing jurisdiction. Some levies require voter approval, while local governments or school districts choose to submit other levies to voters to exceed revenue or budget limits or to increase a levy required to be submitted to voters.

The school funding formula requires some school district levies. These are called **required** or **formulaic levies**.

COUNTY AND CITY LEVIES LIMITED

Although state law allows counties and cities to permissively levy property taxes for many purposes, the total revenue raised is limited. Section 15-10-402, MCA, limits property taxes to 1996 levels. However, that section of law is subject to 15-10-420, MCA, which expands the property tax limit by allowing for an inflationary adjustment.

A city or county is permitted to levy mills that will raise the amount of revenue collected in the previous year adjusted by half of the average rate of inflation over the prior 3 years. The allowable mill levy is calculated using the current year taxable value of property in the taxing jurisdiction less the taxable value of newly taxable property. Newly taxable property includes new construction, subdivided property, and the transfer of property from tax-exempt to taxable status.

A taxing jurisdiction may exceed the mill levy authorized under 15-10-420, increase a mill levy that is required to be submitted to voters, or impose a new mill levy upon an affirmative vote of the voters in the jurisdiction. This authority is provided for in 15-10-425, MCA.

The inflationary adjustment allowed in 15-10-420 does not apply to the 95 mills for school equalization or the 1.5 mills for vocational-technical mills. Those levies may not be increased above the mills provided in statute.

The language in 15-10-420 also does not apply to school district levies.

LOCAL SCHOOL DISTRICT LEVIES DRIVEN BY FORMULA

Funding for school districts comes from a mix of federal, state, and local revenue. State and local revenue is based on a formula provided for in state law. The amount varies based on the number of students, the amount of state aid, and the availability of other local revenue.

School districts may use voted levies to request increases to school budgets. The voted levy must specify the proposed use of the funding and the dollar amount to be raised or mill levy to be imposed. Examples include construction or renovation of schools and technology upgrades.

COUNTYWIDE SCHOOL LEVIES FUND RETIREMENT AND TRANSPORTATION

Property taxes fund school district employee retirement costs and a portion of pupil transportation costs on a countywide basis.

The county superintendent determines the levy required to pay the cost of the employer share of school district employee retirement, federal social security, and unemployment insurance and of the district's transportation.

State law provides a formula for calculating the expenditure amount for each levy and other revenue that must be used to reduce the property tax levy. If a school district crosses county lines, the levy is prorated based on pupil residency.

TAXES FOR MOST PROPERTY DUE IN NOVEMBER AND MAY

County treasurers bill and collect property taxes and distribute property tax revenue. Property owners receive tax bills in October. For most property, half of property taxes are due November 30 of the current year and half are due May 31 of the following year.

Personal property not affixed to real property is subject to different due dates. The due dates for mobile homes not on a permanent foundation are May 31 and November 30 of the current year. The due date for other personal property not attached to real property is 30 days from the date on the bill.

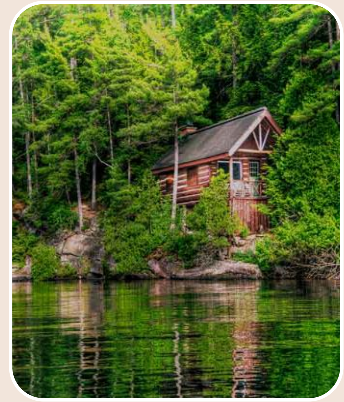
Many homeowners with a mortgage pay property taxes monthly to an escrow account. The account administrator holds the monthly payments and remits the taxes directly to the county treasurer by the statutory due dates.

NEW IN 2024: An alternative payment schedule will be available to residential property owners. The owner of a primary residence may enroll in a program to pay taxes in 7 equal monthly payments between November and May.

ASSISTANCE FOR LOW INCOME, SENIORS, VETERANS, LAND

The state offers property tax assistance for various taxpayers under four different programs. Two programs reduce taxable value for low-income homeowners or disabled veterans. Seniors with incomes below $45,000 may claim an income tax credit for property taxes or rent paid. Land valued disproportionally greater than the primary residence located on the land is eligible for an exemption under certain conditions.

SUMMARY OF PROPERTY TAX ASSISTANCE PROGRAMS



Property Tax Assistance Program

- Reduces taxable value on $200,000 of market value ($350,000 in 2024) to 20%, 50%, or 70% of value, based on income
- Maximum 2023 income of $24,607 single/$32,810 married or head of household
- Ownership and occupancy for 7 months of the year

Disabled Veteran Program

- Reduces taxable value of 100% disabled veteran or surviving spouse to 0%, 20%, 30%, or 50% of value, based on income
- Maximum 2023 income of $56,892 single/$65,645 married or head of household/$49,599 surviving spouse
- Ownership and occupancy for 7 months of the year

Elderly Homeowner and Renter Credit

- Refundable income tax credit of up to $1,150 for homeowners and renters age 62+
- Credit for property taxes or 15% of rent paid, based on income
- Maximum income of $45,000
- Must reside in Montana for 9 months of the year

Intangible Land Value Exemption

- For up to 5 acres of land valued disproportionately higher than the primary residence located on the land
- Land value above 150% of the primary residence value is exempt (subject to the statewide average value of land)
- Requires ownership by applicant or family for 30 years

LEGISLATIVE SERVICES DIVISION