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60th Montana Legislature

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April 17, 2008

TO: House Bill No. 488 Subcommittee

FROM: Jeff Martin, Legislative Research Analyst

SUBJECT: Property Tax Relief Measures in Selected States

States employ a variety of techniques to provide property tax relief to their citizens. At the February 7, 2008, meeting of the House Bill 488 Subcommittee, members reviewed property tax revenue caps of several states. These revenue caps apply to all taxable property. The purpose of this memorandum is to review property tax relief programs for residential property in selected states (Arizona, Colorado, Idaho, Michigan, Montana, New Mexico, North Dakota, Oregon, and Utah). Some relief measures apply to owner-occupied residential property in general while others apply to the poor, elderly, or disabled.

Property tax relief provided by states include homestead exemptions and credits, circuit breakers, and property tax deferral programs. Forty-nine states provide homestead exemptions or credits, 34 states provide circuit breaker programs for homeowners or renters or both, and 25 states provide property tax deferral programs.¹ Most states reviewed in this memorandum that allow a taxpayer to defer property taxes reimburse local governments for the amount of taxes deferred. The property tax deferral in Utah is a local option program. Maryland, New Hampshire, Pennsylvania, Tennessee, and Virginia also provide local option property tax deferral programs.²

Information presented in this memorandum for each state was derived from the state's tax agency website and statutes, and from "State Tax Guide" published by Commerce Clearing House, Inc.

ARIZONA

- **School property tax rebate:** The mill levy on all homestead residential property for high school districts is reduced based on a rebate percentage of 38% in tax year 2008, 39% in tax year 2009, and 40% in tax year 2010 and subsequent tax years. The maximum property tax rebate is \$560 in 2008, \$580 in 2009, and \$600 in 2010 and after. The state makes up the difference in state aid for education.

¹"A Guide to Property Taxes: Property Tax Relief", National Conference of State Legislatures, November 2002.

²*Ibid.*, p. 7.

- **Homeowner and renter credit:** Homeowners or renters who are 65 years old or older or who receive payments under Title 16 of the Social Security Act are allowed a refundable property tax credit for property taxes paid on residential property. The amount of the credit ranges from \$502 on household income up to \$1,750 for a single taxpayer (up to \$2,500 for two or more persons) to \$56 on income up to \$3,750 (up to \$5,500 for two or more persons). Renters report the property taxes paid by the landlord.
- **Property tax deferral:** Taxpayers 70 years old or older whose household income is \$10,000 or less may defer property taxes on residential property valued at \$150,000 or less. The taxpayer must have lived in the residence for at least 6 years and be a resident of Arizona for at least 10 years.
- **Mitigation of school property taxes:** A fund is established to mitigate school property taxes of residential taxpayers 65 years old or older who live in counties with a population of 2 million or more. The local fund is used to proportionately mitigate school district property taxes imposed on taxpayers who qualify for the senior property valuation protection.
- **Senior property valuation protection:** A taxpayer 65 years old or older may qualify to have the valuation of residential property remain fixed at the value of the property in the year of application. Total household income may not exceed 400% (or 500% for married taxpayers) of the supplemental security income benefit rate established by section 1611(b)(1) of the Social Security Act. (Article IX, section 18, of the Constitution of Arizona)

COLORADO³

- **Residential property tax exemption:** A taxpayer 65 years old or older who has resided in a residence for at least 10 years may claim a homestead exemption equal to 50% of the first \$200,000 of market value of the residence. For property tax years beginning after January 1, 2007, a qualifying disabled veteran is eligible for the exemption. The state pays the property taxes on the exempted value. The exemption was suspended for tax years 2002 through 2005.
- **Homeowner and renter property tax credit:⁴** A homeowner or renter who is 65 years old or older or disabled may claim a property tax credit (grant) equal to the property taxes actually paid or equal to 20% of rent paid less charges for food or utilities. The maximum credit is \$600 less 10% of the amount that income exceeds \$6,000. The credit may not be claimed by a taxpayer whose income from all sources exceeds \$12,000, or \$15,700 for married taxpayers. The income thresholds and the phaseout threshold are adjusted for

³"Property Tax Rebates and Deferrals for the Elderly and Disabled", *FYI--For Your Information*, Colorado Department of Revenue, Taxpayer Services Division, September 2007. www.taxcolorado.com

⁴The property tax credit works in conjunction with a tax credit for home heating expenses.

inflation each year. The state pays the credit in installments depending on when the taxpayer files.

- **Property tax deferral:** A taxpayer 65 years old or older may defer the payment of property taxes on the taxpayer's residence. The taxpayer must apply for the deferral program every year. To qualify, the taxpayer may not have earned income. The cumulative deferral, including interest, may not exceed the market value of the property less the value of liens. The mortgage holder must agree that the state's interest legally comes first. The state pays the property taxes on the property in the form of a loan from a property tax deferral account.
- **Local option property tax work-off program:** A taxing entity may establish a property tax work-off program to allow a person at least 60 years old or disabled to perform work for the taxing entity in lieu of the payment of property taxes, or a portion of property taxes, due on the taxpayer's homestead. The number of hours worked is calculated by dividing the applicable amount of property taxes by the federal minimum wage. The taxing entity issues a check to the taxpayer payable to the appropriate county treasurer.

IDAHO

- **Homeowner exemption:** The first 50% of the value of a homestead and one acre of land up to a maximum of \$100,938 is exempt from taxation. The maximum exemption amount is adjusted annually by the percentage increase in the Idaho housing price index as determined by the U.S. Office of Federal Housing Enterprise Oversight.
- **Property tax reduction:** Taxpayers who are 65 years old or older, widows or widowers, disabled, or blind may apply for a property tax reduction. For claimants whose household income is \$11,270 or less receive a tax reduction of \$1,320 or actual taxes, whichever is less. Claimants whose household income is not more than \$28,000 receive a tax reduction of \$150 or actual taxes, whichever is less. The tax reduction amounts are indexed for inflation. The Idaho Tax Commission reimburses local governments one-half the amount of the property tax reduction.
- **Property tax deferral:** A taxpayer who receives a property tax reduction may also elect to defer remaining property taxes. The total deferral amount may not exceed 50% of the taxpayer's share in the market value of the property. The Idaho Tax Commission reimburses local governments for one-half of the amount deferred. However, the total amount of reimbursement paid to all counties may not exceed \$500,000. If the amount of taxes approved for deferral exceeds \$500,000, the amount of deferral on each property must be reduced proportionately and the taxpayer must pay those property taxes.
- **Local property tax deferral program:** Local governments may adopt a property tax deferral program to defer property tax increases for property owners age 65 or older. Local governments may establish income limits and interest rates. Deferred taxes are a

lien on the property. One county allows all homeowners who meet residency and income requirements to participate in the program.

MICHIGAN

- **Homestead property tax credit:** Homeowners are eligible for a refundable state income tax credit equal to 60% of the amount by which property taxes exceed 3.5% of their household income. Renters are allowed the credit based on 20% of their rent. The credit for a homeowner or renter may not exceed \$1,200 and is phased out proportionally for household income between \$73,650 and \$82,650. For taxpayers who are 65 years or older (senior citizen) or disabled the credit is equal to 100% of the homestead property tax (or rent treated as property tax). The amount by which property taxes (or the rent equivalent) exceeds household income ranges from 0% for income not over \$3,000 to 3.5% for income over \$6,000.
- **Deferral of special assessments:** A taxpayer who is 65 years old or older or who is disabled may defer up to \$300 of special assessments. The taxpayer must have income less than \$10,000 as indexed for inflation and be a resident of Michigan for at least 5 years. The Department of Treasury reimburses special improvement districts for the deferral.⁵

MONTANA

- **Property tax exemption:** Thirty-four percent of the market value of residential property is exempt from property taxation. The exemption applies to single-family residences, multifamily rental units, and vacant residential lots.
- **Property tax assistance program:** The first \$100,000 of market value of residential improvements and up to 5 acres of land is eligible for a property tax rate reduction depending on income from all sources (except social security income paid directly to a nursing home). Single taxpayers whose income does not exceed \$7,703 and married taxpayers or head of household whose income does not exceed \$10,270 are eligible for an 80% reduction in the property tax rate (rate times 20%) applicable to class four residential and commercial property. Single taxpayers whose income does not exceed \$19,257 and married taxpayers or head of household whose income does not exceed \$25,676 are eligible for a 30% reduction in the property tax rate (rate times 70%). To qualify for the rate reduction, the taxpayer must live in the homestead for at least 7 months a year.
- **Elderly homeowner and renter credit.** A taxpayer 62 years old or older may claim a refundable property tax credit or renter's credit. The amount of the credit is equal to the property tax billed or 20% of gross rent paid reduced according to a schedule based on

⁵Michigan also provides a temporary deferral of "summer property taxes" for taxpayers who are 65 years old or older or who are disabled. Deferred taxes are the following February 15. A taxpayer whose household income exceeds \$40,000 may not defer taxes.

income. To qualify for the credit the taxpayer must have lived in Montana for 9 months during the claim period and lived in one or more dwellings for at least 6 months. The credit is phased out for household income of \$35,000 or more. A taxpayer whose income is \$45,000 or more may not claim the credit. The maximum credit allowed is \$1,000.

NEW MEXICO

- **Head-of-family property exemption:** An exemption of \$2,000 in taxable value (residential property is assessed at one-third of its market value) is allowed for New Mexico residents.
- **Limitation on the increase in value of certain low-income residential property owners:** The market value of a homestead owned by a taxpayer who is 65 years old or older or who is disabled may not increase above the value established in 2001 (2003 for disabled taxpayers) or in the year the taxpayer turned 65 or in the year the taxpayer became disabled. To qualify for the exemption the taxpayer's income may not exceed \$21,000, as adjusted for inflation.
- **Elderly homeowner property tax or renter rebate:** A taxpayer 65 years old or older may claim a refundable property tax rebate in the amount that property taxes exceed a statutory maximum liability. To qualify for the credit the taxpayer's modified gross income may not exceed \$16,000. The maximum tax liability of a taxpayer whose income is equal to or less than \$1,000 is \$20 and the maximum tax liability of a taxpayer whose income is equal to or less than \$16,000 is \$180. A renter calculates the amount of tax due by multiplying gross rent by for the tax year by 6%. The rebate may not exceed \$250 per return.
- **County adoption of expanded rebate schedule:** A board of county commissioners may expand the income limits for the property tax or renter rebate to \$25,000. The maximum tax liability that applies to the expanded income is also expanded. The county may specify the number of tax years to which the expanded property tax rebate applies. The county must reimburse the state for additional amounts paid to taxpayers.
- **County option low-income property tax rebate:** A county may provide a low-income property tax rebate not to exceed \$350 per income tax return. The rebate ranges from 75% of a taxpayer's property tax liability for modified gross income not over \$8,000 to 30% of a taxpayer's property tax liability for modified gross income not over \$24,000. The county must specify the tax years to which the rebate applies. A county that has adopted the refundable rebate must reimburse the state for the costs of the rebate.
- **Comprehensive low-income tax rebate:** A resident individual may claim a refundable tax rebate for a portion of state and local taxes paid by the taxpayer in the tax year. The amount of the credit ranges from \$450 to \$10. The credit may not be claimed by a taxpayer whose modified gross income exceeds \$22,000. The amount of the credit within each bracket depends on the number of exemptions that the taxpayer claims. The number

of exemptions is determined by adding the number of exemptions allowed for federal income tax purposes plus two additional exemptions for each individual included in the return who is 65 years or older, plus one additional exemption for the blind.

NORTH DAKOTA

- **Property tax credit:** In 2007, the North Dakota Legislature enacted a temporary 2-year property tax credits (SB 2032). One credit is equal to 10% of property taxes paid for residential or agricultural property, and the other credit is equal to 10% of property taxes paid on commercial property. The credit for the combined residential and agricultural property tax credits may not exceed \$500 (or \$1,000) for a joint return. The commercial property tax credit is in addition to the residential and agricultural tax credit.
- **Homestead credit:** A homeowner who 65 years of age or older or who is permanently and totally disabled is eligible for a "homestead credit" to reduce the homeowner's taxable value. The credit is based on income from all sources (with some exceptions) and it may not be taken if income exceeds \$17,500. Except for \$100,000 of market value of the homestead, a taxpayer's assets may not exceed \$50,000. The maximum credit is \$3,375 and the minimum credit is \$675.
- **Renter credit:** A renter who 65 years of age or older or who is permanently and totally disabled is eligible for a renter credit to offset the property taxes included in rent. Renters must meet the same income requirements as homeowners, but the asset limitations do not apply. A renter may claim a refund from the North Dakota Tax Commission to the extent that 20% of the annual rent payment (exclusive of utilities) exceeds 4% of income. The maximum renter credit is \$240.

OREGON

- **Rental assistance:** A taxpayer 58 years old or older whose household income is less than \$10,000 and whose gross rent exceeds 20% of household income may file a claim with the Oregon Department of Revenue for rental assistance for rent paid on taxable property. Rent is the contract amount paid on the use of real and personal property, exclusive of a rent subsidy payment, plus fuel and utility payments made for the residence. Household income includes federal adjusted gross income and most tax-exempt income. A taxpayer who is less than 65 years old may not claim assistance if the combined assets of the household exceed \$25,000. The maximum amount of refundable rent ranges from \$250 for a taxpayer whose household income is less than \$500 to \$18 for a taxpayer whose household income is less than \$10,000.
- **Property tax deferral program:** A taxpayer who is 62 years old or older or who is disabled may defer the payment of property taxes if the taxpayer's household income from all sources is less than \$37,500 (adjusted for inflation). If income exceeds the specified amount the deferral is reduced by \$0.50 for each dollar that income exceeds the maximum amount. A taxpayer who is 62 years old or older may also defer payment of special assessments, including sewer or sidewalk installation, road improvements. The

Oregon Department of Revenue reimburses local taxing entities for the deferral amount. Tax deferred liens have the same priority as other real estate liens except for mortgage, trust deeds, or security interest attached before the tax deferral lien.

- **Property tax work-off program:** A tax exempt entity under section 501(c) may establish a property tax work-off program for a taxpayer 60 years old or older to perform charitable or public service for consideration for payment of property taxes on the taxpayer's homestead. A taxing unit may enter into agreement with a tax-exempt organization that has established the program and may provide funds or grants to the organization for the purposes of the program.

UTAH

- **Property tax exemption:** Up to 45% of a primary residence is exempt from property taxation (Article XIII, section 2(8) of the Utah Constitution). Current law exempts 45% of the value of residential real property, including one acre of land. All other property is taxed at 100% of assessed value.
- **Homeowner's credit:** A taxpayer who is 65 years old or older may claim a credit against the property taxpayer's property tax liability, exclusive of special assessments. Although the credit and the renter's credit are tied to the property tax system it is intended for general relief of all taxes (Utah Code 52-2-1201). The state reimburses the amount of the credit. The credit ranges from \$798 for a taxpayer whose household income from all sources is less than \$9,160 to \$98 for a taxpayer whose income is less than \$26,942, but the credit may not exceed the taxpayer's property tax liability. Income brackets are adjusted for inflation. The Utah Legislature increased the age to qualify for the credit to 66 years and 67 years depending on when the taxpayer was born.
- **Renter's credit:** A renter may claim a credit subject the conditions of the homeowner credit. The credit may not be claimed for subsidized rent payments. The percentage of rent constituting property tax ranges from 9.5% for a taxpayer whose household income is less than \$9,160 to 2.5% for a taxpayer whose income is less than \$26,942. The amount of the credit by income bracket may not exceed the equivalent amount of the homeowner's credit. The claim must be filed with the Utah Tax Commission.
- **Indigent abatement of property taxes:** A county may remit or abate the taxes of any poor person in an amount not exceeding the lesser of the amount provided as a homeowner's credit for the lowest household income bracket , or 50% of the total tax levied for the current year. The abatement generally applies to taxpayers 65 years old or older or a taxpayer who is disabled. However, a county may grant an abatement if it determines an extreme hardship (not defined) exists for a younger taxpayer.
- **Indigent deferral of property taxes:** A county may defer property taxes for taxpayers who meet the conditions required for the indigent abatement of property taxes. The owner or a mortgage or trust deed must give written approval before the deferral may be granted.

- **Adjustment or deferral of taxes:** A county governing body may accept less than the full amount of property taxes due or defer the full amount if, in the judgement of the governing body, the interests of the taxpayer and the interests of state and local government are served. There are no specific eligibility requirements. Repayment of the deferred amount is the same as indigent deferral.

CONCLUSION

Most of the property tax relief measures discussed in this memorandum apply to older taxpayers. However many states provide exemption, credit, or circuit breaker relief to a variety of taxpayers. The amount of relief may depend on the age and income of the taxpayer. The subcommittee may want to consider developing a more comprehensive survey that could be used for subcommittee deliberations and by legislators in general.

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