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A National Perspective on the Property Tax: How Montana Compares

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Montana's Financial Modernization and Risk Analysis Study Committee (MARA)
Monday, November 29, 2021

About the Lincoln Institute of Land Policy

The Lincoln Institute of Land Policy seeks to improve quality of life through the effective use, taxation, and stewardship of land



About the Lincoln Institute of Land Policy

- A nonprofit private operating foundation whose origins date to 1946, the Lincoln Institute researches and recommends creative approaches to land as a solution to economic, social, and environmental challenges
- Through education, training, publications, and events, we integrate theory and practice to inform public policy decisions worldwide
- The Lincoln Institute has offices in Cambridge, Phoenix, Washington, DC, and Beijing

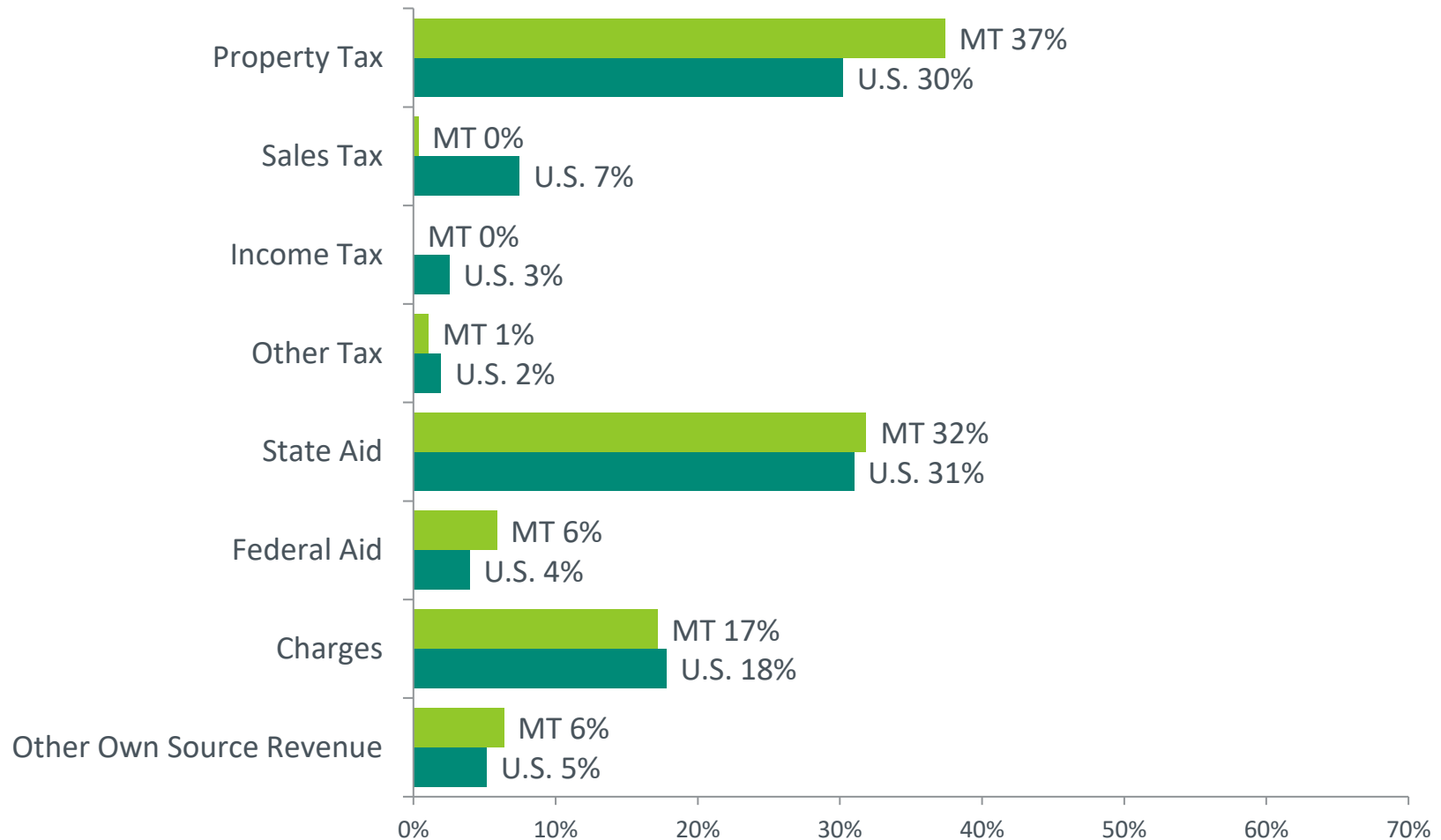
Outline

- How Montana's Property Tax Structure Compares to Other States
- Key Findings from "Effects of Reducing the Role of the Local Property Tax in Funding K-12 Education" by Daphne A. Kenyon and Semida Munteanu
- Introduction to *Property Tax Relief for Homeowners* by Adam H. Langley and Joan Youngman

Distinctive Features of Montana's Property Tax System

- Since Montana does not levy a broad-based sales tax, local governments in Montana rely more heavily on the property tax than the U.S. average
- Montana is one of only two states in which the state government appraises property
- Montana has a complex classification system which imposes a 100 percent assessment ratio on mines but a 1.35 percent assessment ratio for residential property

Sources of Local General Revenue, Montana and U.S., 2018



Source: U.S. Census via Significant Features of the Property Tax

Selected Montana Property Tax Statistics, 2018

	Montana	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$1,698	\$1,667	16
Property tax percentage of personal income	3.6%	3.1%	14
Total property tax as percentage of state-local revenue	18.5%	16.6%	16
Median owner-occupied home value ²	\$230,600	\$217,500	19
Median real estate taxes paid for owner-occupied home ²	\$1,928	\$2,471	27
Effective tax rate, median owner-occupied home ³	0.8%	1.1%	32

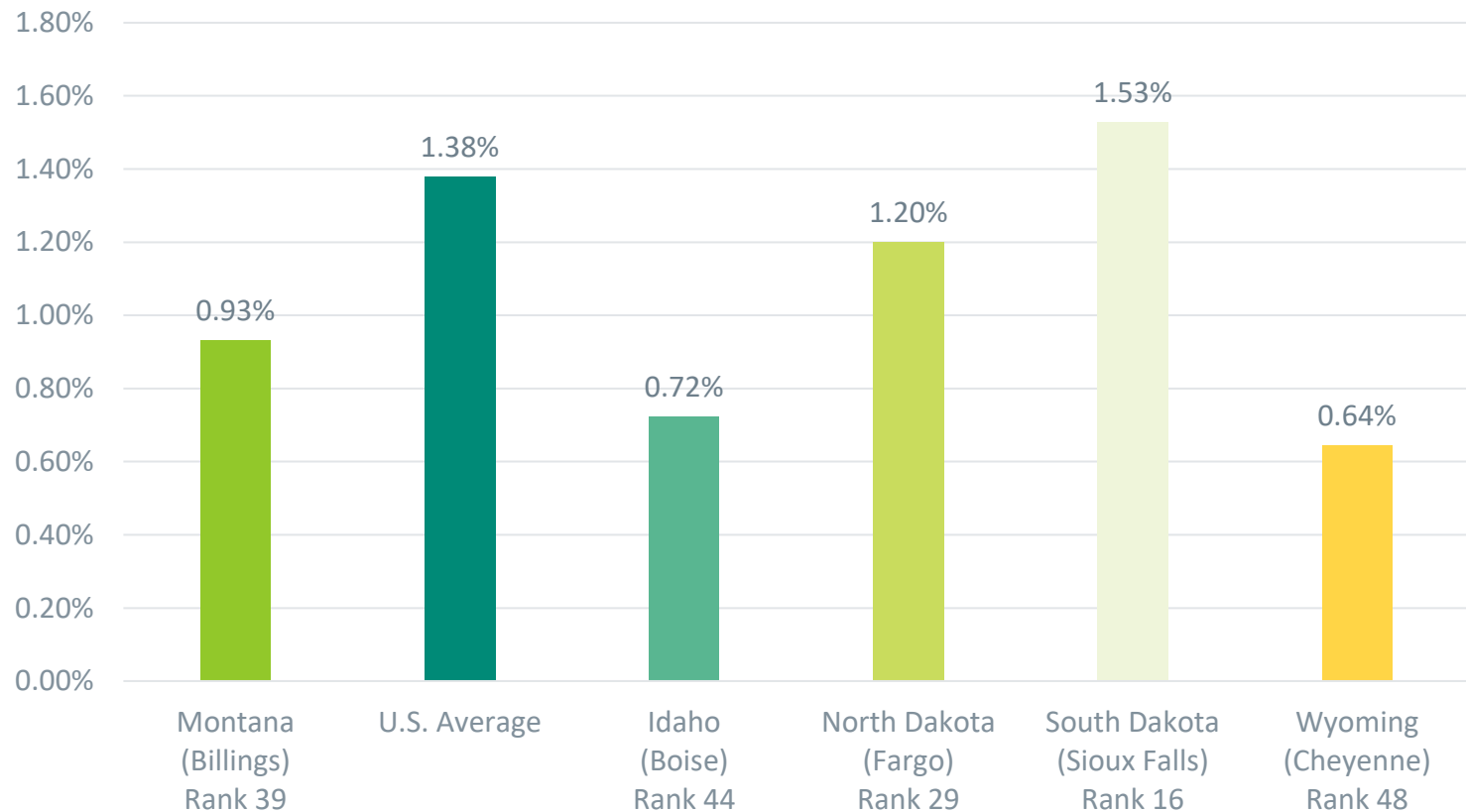
Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

Property Tax Features of State Governments, Montana, 2018

Feature	Montana	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	18
Circuit breaker property tax relief program	Yes	34

Source: Significant Features of the Property Tax via State-by-State Property Tax at a Glance

Homestead Effective Property Tax Rate, Montana, U.S. Average, and Selected States, 2020



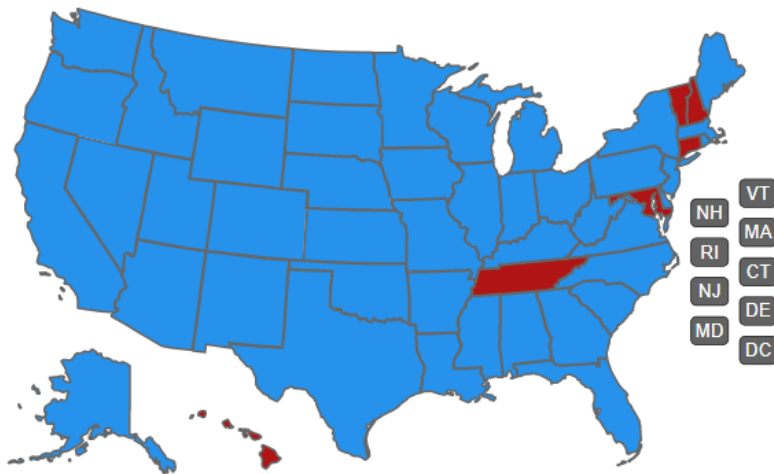
Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence

State-Imposed Property Tax Limits

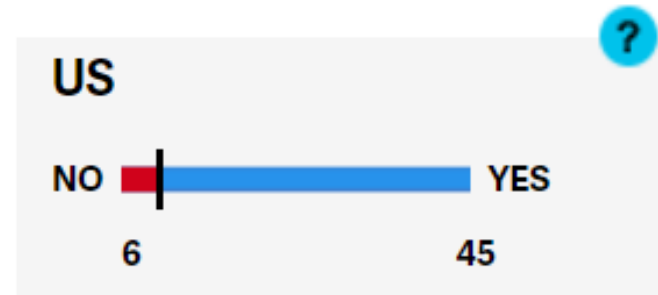
All but three states limit local property taxation in one of three ways:

- **Rate Limit:** A legal limit on property tax rates so that they are either frozen or tied to an index or formula.
- **Levy Limit:** A legal limit on the amount of revenue raised by the property tax or on the rate of growth in property tax revenues.
- **Assessment Limit:** A legal limit on annual increases in assessed values that either freezes such values or ties increases to an index or formula

Rate or levy limits apply in 45 states

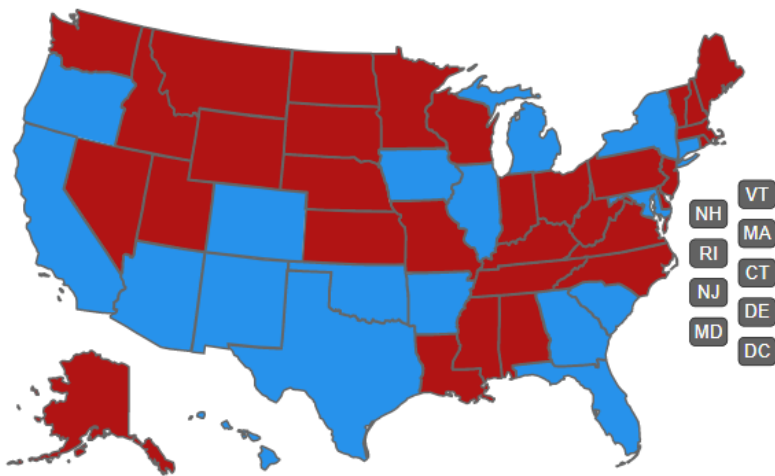


Limits on property tax rates or levies

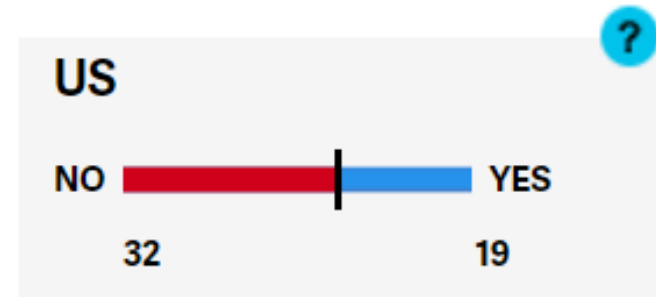


Source: State-by-State Property Tax at a Glance

Assessment limits apply in 32 states



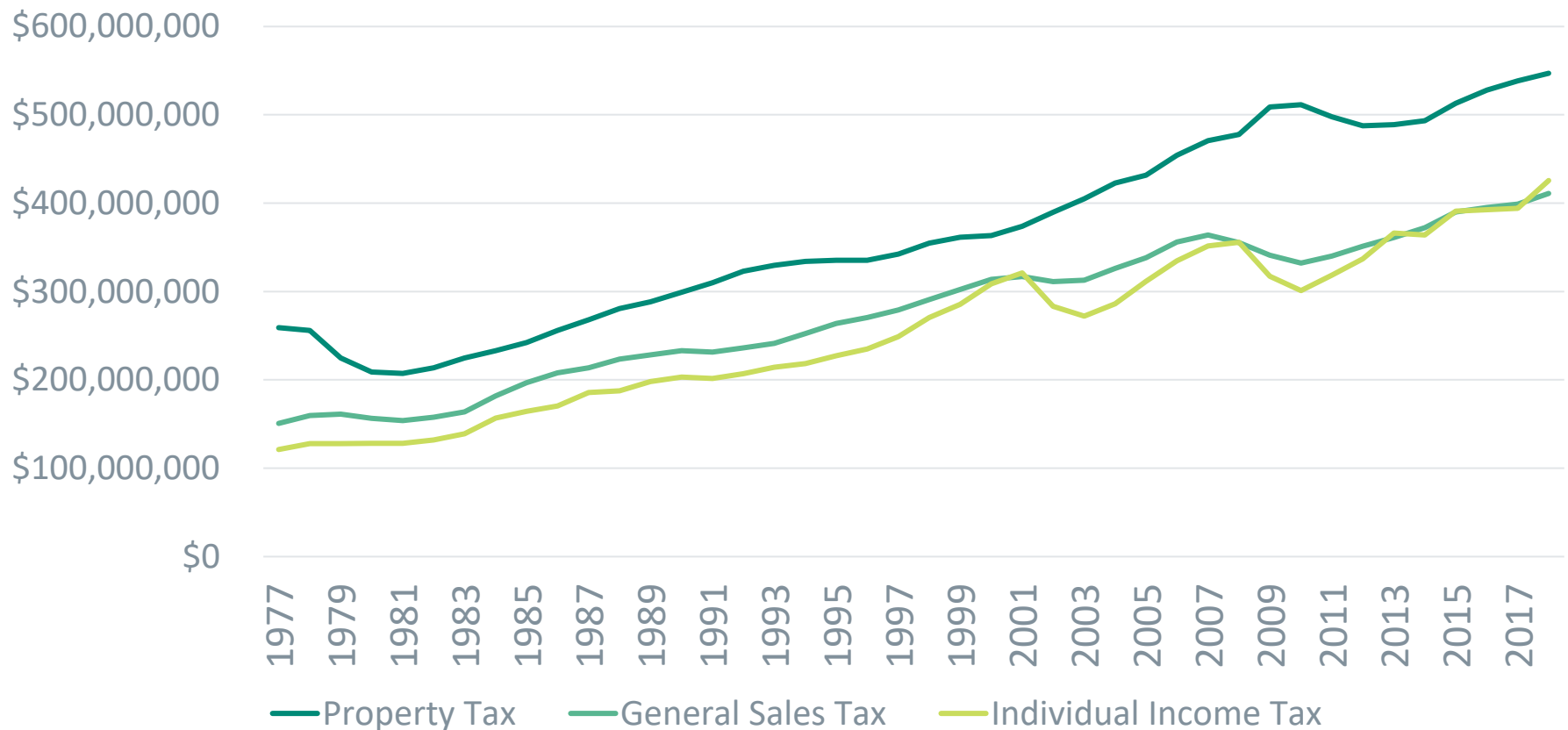
Limits on the rate of growth of assessed value



Source: State-by-State Property Tax at a Glance

Key Findings from “Effects of Reducing the Role of the Local Property Tax in Funding K-12 Education”

U.S. State and Local Property, General Sales, and Individual Income Tax Revenue 1977 to 2018, Real 2018\$ (in thousands)



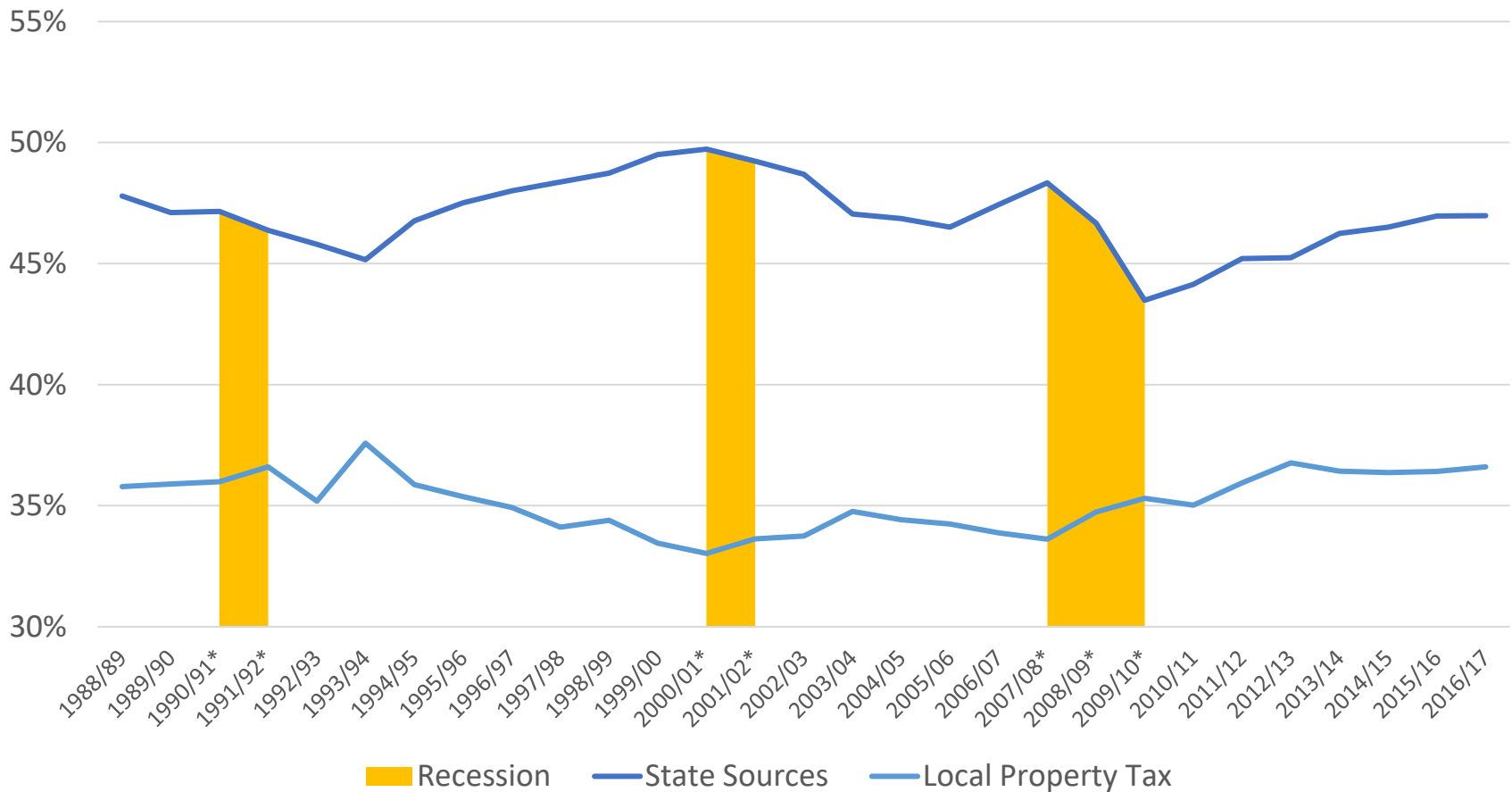
What Makes the Property Tax Stable?

1. Property values less sensitive to changes in income and employment rates than retail sales, personal income, and business profits.
2. Assessment lags – assessments are backward looking; revaluation cycles range from annual to 6 years
3. Local governments have ability to change tax rates on an annual basis, increasing tax rates when property values fall (and vice versa)

School Spending During Recessions

- 47% of school spending in the US comes from state funding (state aid); 37% from local property taxes
- State aid comes mostly from income and sales taxes, extremely responsive to economic fluctuations
- State governments have balanced budget requirements – when state revenues fall, they must increase taxes or cut spending
- Property tax serves as backstop during recessions – local school districts increase property taxes to offset state aid cuts (Dye and Reschovsky, 2008)
- During last three recessions, state aid declined, and local property tax share increased in the aggregate

State Aid and Local Property Tax Share of U.S. K-12 Education Revenues, FY1989-FY2018



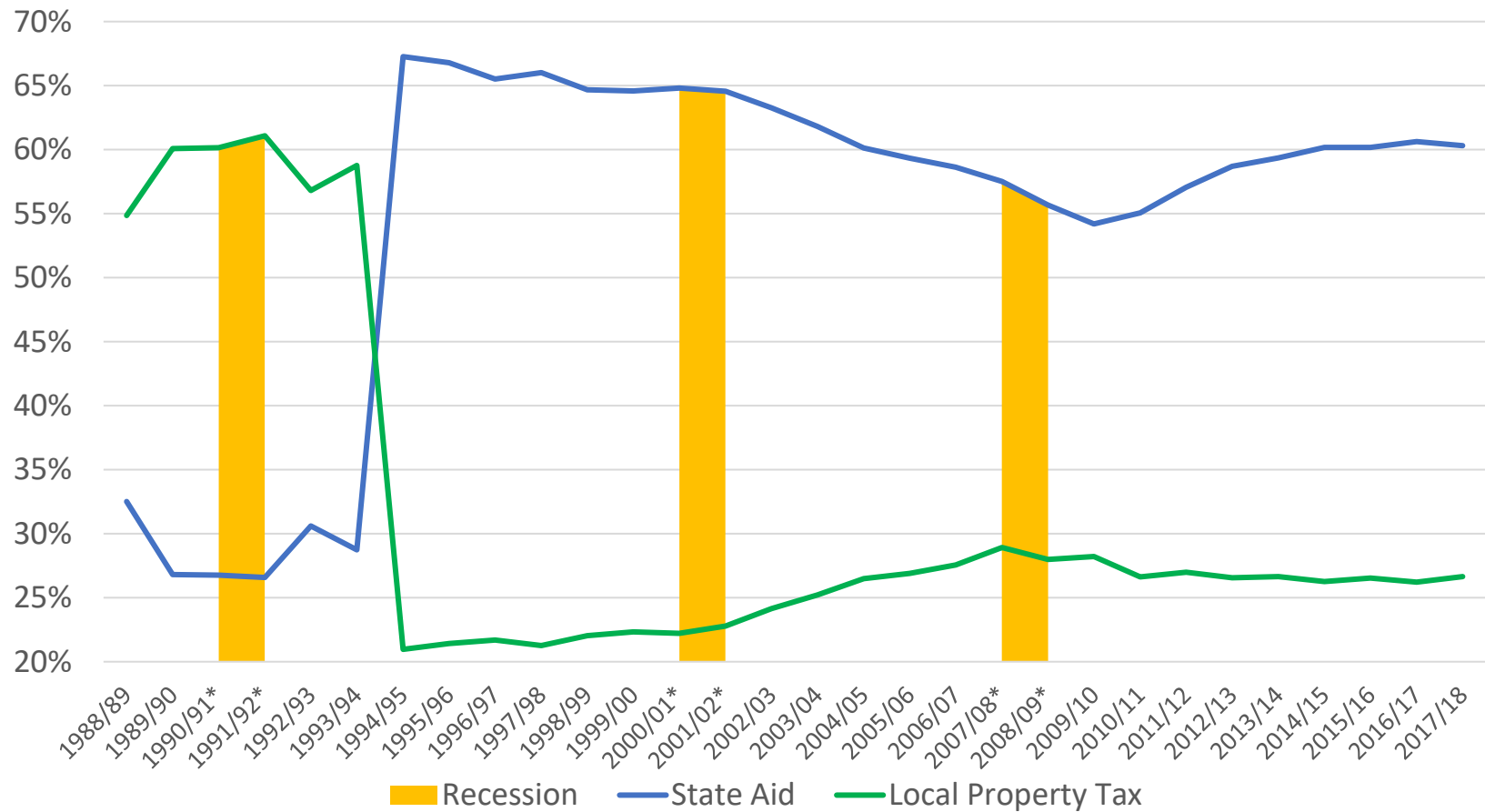
Michigan

- An early “tax swap” state
- Proposal A enacted in 1994
 - Cut property taxes
 - Replaced lost revenue with revenue raised by a sales tax increase

Michigan

- Very restrictive property tax limits
 - Complicated set of property tax rate limits
 - Tight assessment limit
 - Strict levy limit

Michigan State Aid and Local Property Tax Share of K-12 Education Revenues



Key Conclusions of Study

- Reliance on the local property tax makes school funding more stable in recessions
- The ability of the local property tax to support K-12 education over the business cycle can be hampered by stringent state-imposed property tax limits

Introduction to *Property Tax Relief for Homeowners* by Adam H. Langley and Joan Youngman



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Property Tax Relief for Homeowners

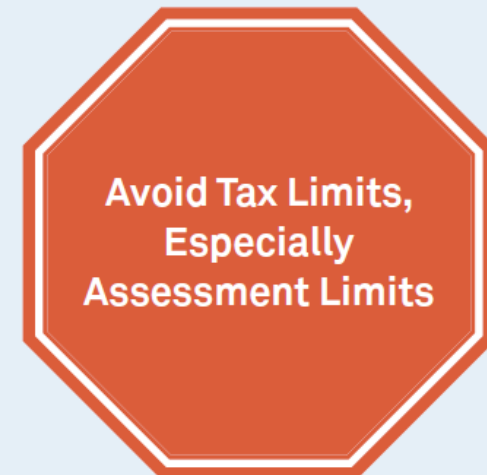


ADAM H. LANGLEY AND JOAN YOUNGMAN

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Report Recommendations

The Keys to an Equitable and Efficient Property Tax System



Sources

Property Tax Relief for Homeowners (2021)

by Adam H. Langley and Joan Youngman

www.lincolninst.edu/publications/policy-focus-reports/property-tax-relief-homeowners

Introduction to the Property Tax

www.lincolninst.edu/introduction-property-tax

- “Property Tax 101: Why the Property Tax” (2020)
- “Property Tax 101: The Mechanics” (2020)
- “Property Taxes: What Everybody Needs to Know” by Ronald C. Fisher (2021)

Sources

“Effects of Reducing the Role of the Local Property Tax in Funding K-12 Education” by Daphne A. Kenyon and Semida Munteanu in *Recent Advancements in Education Finance and Policy*, ed. Thomas Downes and Kieran Killeen, forthcoming, 2022

Sources

State-by-State Property Tax at a Glance Narratives and Visualization Tool

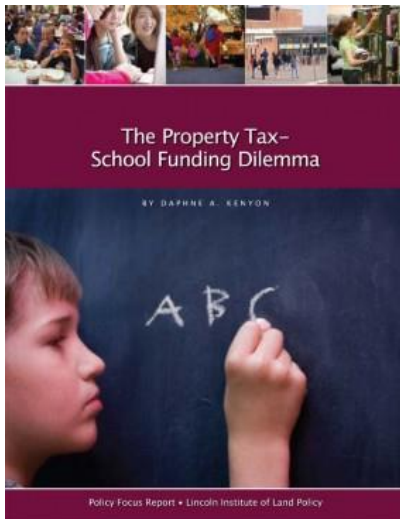
www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/state-state-property-tax-glance/property-tax-data-visualization

This data toolkit presents information on property tax systems in the 50 states and the District of Columbia. An interactive map allows users to easily view and compare key property tax statistics among states. Companion tables and charts display numerical values for key property tax system variables for each state, DC, and the U.S.

Sources

50-State Property Tax Comparison Study (2021)

www.lincolnst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2020-full_0.pdf



The Property Tax-School Funding Dilemma

by Daphne A. Kenyon (2007)

www.lincolnst.edu/publications/policy-focus-reports/property-tax-school-funding-dilemma

Update forthcoming 2022:

“The Property Tax-School Funding Dilemma” by Daphne A. Kenyon, Andrew Reschovsky, and Bethany P. Paquin

Thank you!

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