Montana

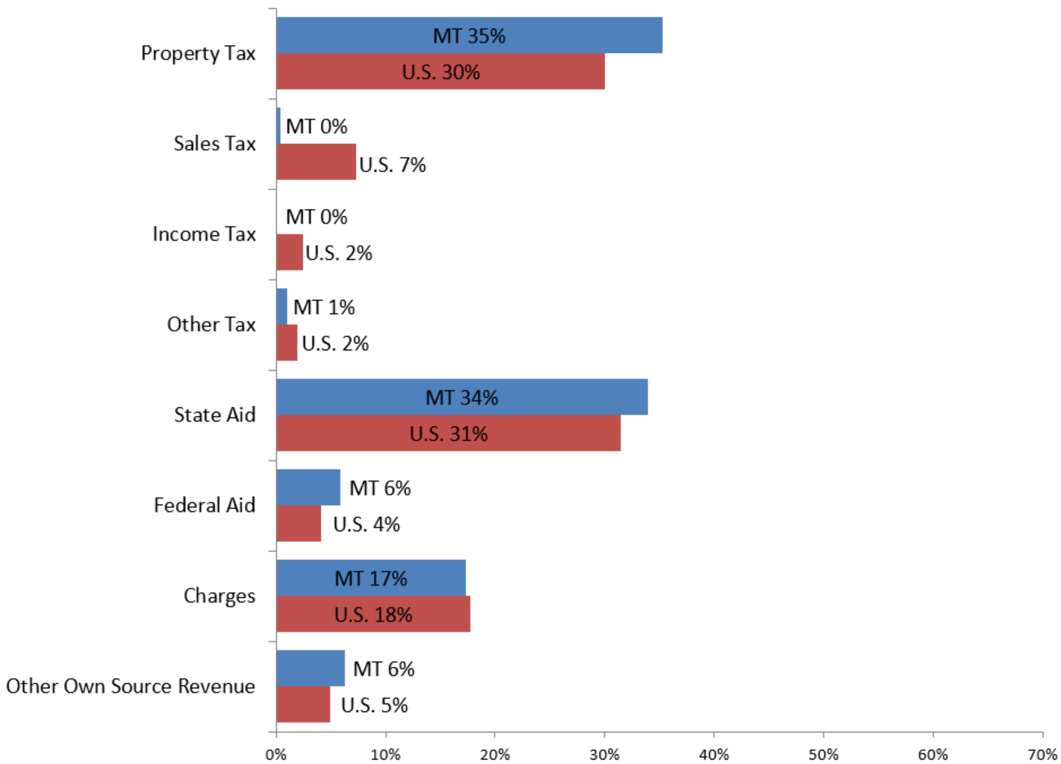
Highlights

Montana does not levy a broad-based sales tax but does levy a state personal income tax. The income tax is the primary source of state revenue, while the property tax is the primary funding source for local government and individual school districts. As a result, local governments and school districts in Montana rely heavily on the property taxes and state aid (figure MT-1).

Property is appraised at the state level by the state department of revenue instead of by local governments, an arrangement that only Maryland and Montana employ. The state sends the certified values to the counties, which determine the appropriate tax rate to levy and then collect and distribute tax revenue.

Montana employs a complex system of classification, with 14 different classes. Assessment tax rates (sometimes called tax rates but equivalent to assessment ratios in other states) range from 100 percent for net proceeds of mines (Class 1) to 0.34 percent for forest land (Class 10). Class 4 includes residential, commercial, and industrial property; the assessment ratio is 1.35 percent for most residential property and 1.89 for most commercial and industrial property (Montana Department of Revenue 2017).

Figure MT-1
Sources of Local General Revenue, Montana and U.S., 2017



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

Property Tax Reliance

Although income taxes are the primary source of state government funding in Montana, the state does levy a statewide property tax (table MT-1). State property tax revenue accounts for slightly less than 20 percent of total statewide property tax collections (Montana Budget & Policy Center 2014).

Table MT-1
Selected Montana Property Tax Statistics, 2017[1]

	Montana	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$1,568	$1,618	*23*
Property tax percentage of personal income	3.5%	3.1%	*15*
Total property tax as percentage of state-local revenue	18.0%	16.2%	*15*
Median owner-occupied home value[2]	$219,600	$222,041	*20*
Median real estate taxes paid for owner-occupied home[2]	$1,835	$2,412	*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

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2014-2018.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

The state levies 95 statewide mills for local school equalization purposes and 6 statewide mills for university funding. Other than the state levies, generally the rates are determined by calculating the jurisdiction's budget need divided by the total taxable value in the jurisdiction.

Property tax rates for schools are established by determining the budget need of an individual school district within the parameters of a school funding formula defined by the state legislature. District funding levels are driven primarily by the number of students, the number of teachers, and the size of the district. Total rates for school districts may "float" as high as is needed to meet the budgetary requirements of the district, so long as the district's budget is in compliance with the law. The state also helps fund poorer districts though the use of a modified guaranteed tax base aid program.

Property is classified into 14 broad categories, and the portion of the market value that is taxable is based on which tax class the property is in. There is a great deal of variation among these classes in the rates of assessment, from 100 percent to 1.35 percent for residential property (Class 4) (although the portion of a residential dwelling in excess of $1.5 million has an assessment rate of 1.89 percent.) Most classes of property are assessed annually, although residential and commercial properties (which make up approximately two-thirds of the property tax base) are assessed biennially. The tax base for agricultural property is productive value, not market value.

Taxes for a property are determined by multiplying the taxable value (assessed value minus exemptions multiplied by the assessment rate) by the sum of all the rates of the jurisdictions that have taxing authority over the property. In tax year 2016, the statewide average millage rate was equal to 573.83 mills for all classes of property (Montana Department of Revenue 2017).

Limits on Property Taxation

All non-school district taxing jurisdictions are limited in the number of allowable rate levies by the formula prescribed in the Montana Code Annotated. The code states that the maximum allowable rate a jurisdiction may levy is equal to the amount assessed in the prior year (adjusted for inflation) divided by the current year's taxable value, less any newly constructed or newly taxable property. The total rate is then applied to all properties, including newly constructed and newly taxable property.

Property Tax Relief and Incentives

Montana has three circuit breaker programs. The Property Tax Assistance Program (PTAP) reduces property taxes for low-income households by reducing a property's taxable value (table MT-2). The program reduces the Class 4 tax rate by 80 percent, 50 percent, or 30 percent depending on the income of the owners. To qualify for this program in 2018, homeowners must report a household income of below $22,711 for one qualified homeowner and below $30,281 for multiple qualified owners. An additional qualification stipulates that homeowners must reside in their home for seven months out of the year. PTAP applies to the first $200,000 of the appraised value of residential property and up to five acres of residential land (Significant Features of the Property Tax).

The Disabled American Veterans program (DAV) lowers property taxes for disabled veterans by reducing the Class 4 tax rate by 100 percent, 80 percent, 70 percent, or 50 percent depending on their income. It applies to residential improvements and up to five acres of land. To qualify, the property must be the primary residence of a veteran who was honorably discharged and paid at the 100 percent disabled rate by the Department of Veterans Affairs for a service-connected disability. The spouse of a veteran killed while on active duty or who died from a service-connected disability qualifies for DAV benefits as well (Significant Features of the Property Tax).

Taxpayers who are age 65 or older and have a household income of less than $45,000 may be eligible for the elderly homeowner/renter income tax credit. This credit provides a subsidy for older taxpayers who own their home and whose income is no longer proportional to the value of their home and is designed to enable them to stay in their homes. For older taxpayers who rent, it subsidizes the rent they pay. The credit refunds part or all of the property tax a homeowner pays directly, or a renter pays indirectly, that is more than a certain percentage of household income. For a household with income between $12,000 and $45,000, this amount is 5 percent. For households with lower incomes, the credit refunds part or all of property taxes that are more than a smaller percentage of income. For taxpayers with income up to $1,999, the credit refunds part or all of property taxes that are more than 0.6 percent of income. The credit is limited to a maximum of $1,000 per household, and it phases out for households with income between $35,000 and $45,000 (Significant Features of the Property Tax).

The energy production or development tax abatement provides a 50 percent rate reduction on a qualified energy production or development facility and equipment. The taxable value reduction may be in effect during the construction period and the first 15 years after the facility commences operation but may not exceed a total of 19 years. Currently, properties using this abatement are in Class 14 and Class 15, both of which are normally taxed at 3 percent. This program changes the taxable value rate to 1.5 percent for these properties (Significant Features of the Property Tax).

Montana allows local governments to grant tax abatements of up to 50 percent to new and expanding industries. The abatement reduces a taxpayer's taxable value by 50 percent for the first five years and is then phased out in years six through ten. These locally approved abatements do not apply to state levies. Montana also has a tax increment finance (TIF) program (Significant Features of the Property Tax).

Table MT-2
Montana Property Tax Features, 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	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

Under the 1889 Montana Constitution, real property was generally valued at less than market value and property was appraised by county assessors (Powell 2009). The state was assigned the appraisal role by the 1972 state constitution to ensure uniform valuation of similar properties. In 1975, the legislature set a five-year appraisal cycle, requiring that at least 20 percent of the property in each county be revalued each year. From 1975 to 2009, the legislature changed the reappraisal cycle five times, ending with a six-year reappraisal cycle which remained in place until 2015. When the six-year cycle was in force, new values for each property were phased in over the six-year cycle through a complicated formula.

Montana began using a foundation program to distribute state aid to public schools with the Foundation Program Act of 1949 (McCracken 2016). In *Helena Elementary School District No. 1 v. State* (1985), the Montana Supreme Court declared that the education finance system violated the education clause of the state's constitution and affirmed that spending disparities among school districts deny equality of educational opportunity. The state legislature responded by adopting a foundation program with higher payments to local districts (SchoolFunding.Info). However, a lawsuit filed in 1992 claimed that the adjustments to the foundation aid failed to fix funding disparities. The following year, the state legislature replaced the foundation program with a funding formula centered around base amounts for school equity (BASE) budgets (McCracken 2016).

In *Columbia Falls Public Schools v. State* (2002), schools, districts, and individuals from across the state claimed that declining funding led to cut programs and staff cuts, inability to hire and retain teachers, and inability to comply with state standards. The district court held that the school funding system did fail to provide adequate funding for public schools and that the state did not pay its share of the cost of public schools. In a 2005 special session called by the governor, the legislature raised state funding from 9 percent to 10 percent (SchoolFunding.Info). A second lawsuit, *Columbia Falls II*, claimed that these changes were insufficient. In his 2008 decision, Judge Jeffrey Sherlock refused to award supplemental relief, but commented on the state's ongoing effort to support the constitutional commitment to education (Montana Legislature, Legislative Services Division 2016).

Recent Developments

In the 2015 legislature, Senate Bill 157 was passed, shortening the reappraisal cycle for Classes 3 and 4 to two years, while maintaining the six-year cycle for Class 10. The complex phase-in processes were eliminated as well. Assessment tax rates to determine taxable value were also changed in Senate Bill 157 to help mitigate the impact of changing market conditions, with the decision of future mitigation rate changes left to future legislatures.

During the 2017 legislative session, there was a great deal of debate regarding tax increment finance (TIF). One concern was that TIF districts might be reducing the funds available for schools. By the end of the session two TIF bills had passed. HB 396 requires municipalities to confer with counties and school districts before creating a TIF. SB 27 increases the reporting requirements for TIF (Montana League of Cities and Towns 2017).

Montana voters approved a ballot measure to renew the 6 mill levy for colleges and universities which was set to expire at the end of 2018 (Legislative Referendum 128). The university levy has been renewed every 10 years since its adoption in 1948. The ballot initiative extends the levy until 2029. Legislation to make the levy permanent failed in the 2019 session (House Bill 152).

In its 2019 session, the legislature passed House Joint Resolution No. 35 calling for a study of Montana's state and local tax system with recommendations on a tax structure that will stabilize revenues, promote long-term economic prosperity, reflect principles of sound tax policy, and allow Montana to be competitive with other states. The study will be due in 2020.

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