

HOUSE OF REPRESENTATIVES
PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE 4/24/91

NAME	PRESENT	ABSENT	EXCUSED
REP. BEN COHEN, VICE-CHAIR	✓		
REP. ED DOLEZAL	✓		
REP. ORVAL ELLISON	✓		
REP. RUSSELL FAGG	✓		
REP. DAVID HOFFMAN	✓		
REP. ED MCCAFFREE	✓		
REP. MARK O'KEEFE	✓	X 9:10	
REP. TED SCHYE		✓	
REP. FRED THOMAS	✓		
REP. DAVE WANZENRIED	✓		
REP. DAN HARRINGTON, CHAIRMAN			

J.R
K.M

Amount 143
DATE 1/24/91
HB SC PTAX

Office of Public Instruction
January 23, 1991
Tax Package Proposal

Property Tax Reform

- 1) Separate a "residential" and "income producing" property into two classes. Residential property includes rentals and apartment complexes (even though they are income producing).
- 2) Exempt from taxation: livestock, agricultural implements, furniture and fixtures, rental and lease equipment assessed at less than \$10,000, CB's and mobile phones, supplies and materials, and theatre and sound equipment.
- 3) Create a property tax class called "Trucks and Heavy Mobile Equipment."
- 4) Classify any personal property in the "income producing" class that is not exempted or classified as trucks and heavy mobile equipment. Set the tax rate for the "income producing" class to recover the revenue lost due to the exemption of personal property in (2).
- 5) To offset a rate increase on "primary-residence" residential property, the tax package could include an individual income tax deduction on the first \$100 of property taxes paid on the taxpayer's primary residence. ($\$10,000 * .0386 * 260$ mills)

This is basically a revenue-neutral proposal in that it would not generate additional revenues or increase the statewide taxable valuation. It would shift property tax burdens among taxpayers.

Create 11 classes of taxable property as follows. The new classes are in bold. The existing classes and their present tax rates are listed under the new classes.

Real Property

Personal Property

Net Proceeds (100%)

Net Proceeds (100%)
-- Micaeous mines

Gross Proceeds (3%)

Gross Proceeds (3%)
-- Metal mines

Agricultural Land (45.6%)

Agricultural Land (30%)

Residential Property (3.86%)

Residential Real (3.86%)
Farmsteads (3.088%)
Mobile Homes (3.86%)

EXHIBIT 2 of 3
DATE 11/24/91
HB SC PTA X

BENEFICIAL USE ASSESSMENTS
OF
500 KV TRANSMISSION LINES

Property Taxes And Agriculture

By Douglas J. Young

EXHIBIT 3 83
DATE 1/24/91
HB SC PTAX

DO MONTANA farmers and ranchers pay higher property taxes than farmers and ranchers in other states? What has happened to agricultural property taxes during the 1980s when land values fell so dramatically?

Is agricultural property taxed more heavily than other kinds of property, e.g. residential or commercial and industrial?

The accompanying table provides answers to the first two of these questions.

Each entry in the table is calculated by dividing total property taxes paid by farmers and ranchers (exclusive of taxes on residences) by the market value of farm real estate and then multiplying by one hundred.

Thus, the table entries display the effective property tax rates — property taxes as a percentage of the market value. The last column of

the table shows Montana's rank among the 50 states (1 being the highest tax rate and 50 the lowest).

First compare the entries in the Montana column with those for the other states and the average over all states. Tax rates in Montana are fairly close to the national average. Rates are lower in Idaho and Wyoming (and were lower in the beginning of the 1980s in North Dakota), while South Dakota's tax rates have been 20 to 60% higher than Montana's.

The ranking in the last column indicates that Montana's rates are somewhat above the median for all states.

Looking down the columns, it is apparent that effective property tax rates increased substantially between 1982 and 1986 both in our region, and nationally. Montana's increase of about 50% is close to the national norm but lower than

the (percentage) increase of any of our neighbors except Wyoming. Between 1986 and 1988 tax rates fell slightly, but remain far above their levels in the early 1980s.

Most of the increase in tax rates appears to have resulted from the decline in agricultural land values

of the increase in effective tax rates occurred not because property taxes went up, but rather because the market value of agricultural property went down.

The slight decline in tax rates between 1986 and 1988 corresponds to the slight recovery in land prices

Property taxes on agriculture in Montana are roughly in line with national averages

together with state assessment methods that are unresponsive (at least in the short run) to changes in market values. Most states (including Montana) use some method other than market valuation for assessing agricultural real estate.

A typical approach (which will apply in Montana beginning in 1991) is to capitalize an estimate of an enterprise's profitability. In order to determine "current use" value. In the past farmers have benefitted from this approach, because alternative (possibly higher valued) uses of land were ignored, and because the capitalization procedures often understated even true value in current use.

However, these assessment procedures are unresponsive to changes in actual values until profitability estimates are updated. In short, most

during that period.

Even at the higher levels of the late 1980s, effective tax rates in agriculture remain below those on other assets. For example, the average effective tax rate on single family houses in Montana in 1986 was 1.32%. A separate (and not entirely comparable) source estimates that national averages of effective property tax rates in 1985 for various kinds of property were: residential, 1.59%; commercial/industrial, 1.26%; public utilities 1.43%; farm .64%.

Thus, property taxes on agriculture in Montana are roughly in line with national averages and have shown the same increases as land values fell in the 1980s. But despite the increases, agriculture still enjoys a substantial preference in comparison with other sectors of the economy.

Young is professor of agricultural economics and economics, Montana State University.

VISITOR'S REGISTER

AGENCY(S)

DEPARTMENT

PROPERTY TaxTaxation CommitteeBen Cohen - VC

SUBCOMMITTEE

DATE 4/24/91

NAME	REPRESENTING	SUP- PORT	OP- POSE
<u>Samantha Sanchez</u>	<u>MAPP</u>		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.