House BILL NO. 183

INTRODUCED BY Cobb

A BILL FOR AN ACT ENTITLED: "AN ACT INDEXING THE PROPERTY TAX RATE FOR CLASS FOUR PROPERTY; PROVIDING THAT THE NEW RATE BE BASED UPON CHANGES IN VALUATION OF CLASS FOUR PROPERTY DUE TO PERIODIC REVALUATION; PROVIDING THAT CHANGES BECAUSE OF NEW CONSTRUCTION AND DELETIONS ARE TO BE ADJUSTED IN INDEXING THE NEW PROPERTY TAX RATE; AND AMENDING SECTION 15-6-134, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-6-134, MCA, is amended to read:

"**15-6-134. Class four property -- description -- taxable percentage.** (1) Class four property includes:

(a) all land except that specifically included in another class;

(b) all improvements, including trailers or mobile homes used as a residence, except those specifically included in another class;

(c) the first $80,000 or less of the market value of any improvement on real property, including trailers or mobile homes, and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling of any person whose total income from all sources, including net business income and otherwise tax-exempt income of all types but not including social security income paid directly to a nursing home, is not more than $10,000 for a single person or $12,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii). For the purposes of this subsection (c), net business income is gross income less ordinary operating expenses but before deducting depreciation or depletion allowance, or both.

(d) all golf courses, including land and improvements actually and necessarily used for that purpose, that consist of at least ~~9~~ nine holes and not less than 3,000 lineal yards; and

(e) all improvements on land that is eligible for valuation, assessment, and taxation as agricultural land under 15-7-202(2), including 1 acre of real property beneath the agricultural improvements. The 1 acre must be valued at market value.

(2) Class four property is taxed as follows:

(a) Except as provided in 15-24-1402 or 15-24-1501, property described in subsections (1)(a), (1)(b), and (1)(e) is taxed at ~~3.86%~~ <u>the percentage determined under subsection (3)</u> of ~~its~~ <u>the property's</u> market value.

(b) (i) Property described in subsection (1)(c) is taxed at ~~3.86%~~ <u>the percentage determined under subsection (3)</u> of ~~its~~ <u>the property's</u> market value multiplied by a percentage figure based on income and determined from the following table:

Income Single Person	Income Married Couple Head of Household	Percentage Multiplier
$ 0 - $ 1,000	$ 0 - $ 1,200	0%
1,001 - 2,000	1,201 - 2,400	10%
2,001 - 3,000	2,401 - 3,600	20%
3,001 - 4,000	3,601 - 4,800	30%
4,001 - 5,000	4,801 - 6,000	40%
5,001 - 6,000	6,001 - 7,200	50%
6,001 - 7,000	7,201 - 8,400	60%
7,001 - 8,000	8,401 - 9,600	70%
8,001 - 9,000	9,601 - 10,800	80%
9,001 - 10,000	10,801 - 12,000	90%

(ii) The income levels contained in the table in subsection (2)(b)(i) must be adjusted for inflation annually by the department of revenue. The adjustment to the income levels is determined by:

(A) multiplying the appropriate dollar amount from the table in subsection (2)(b)(i) by the ratio of the PCE for the second quarter of the year prior to the year of application to the PCE for the second quarter of 1986; and

(B) rounding the product thus obtained to the nearest whole dollar amount.

(iii) "PCE" means the implicit price deflator for personal consumption expenditures as published quarterly in the Survey of Current Business by the bureau of economic analysis of the U.S. department of commerce.

(c) Property described in subsection (1)(d) is taxed at one-half the taxable percentage rate established in subsection (2)(a).

(3) (a) ~~After July 1, 1986, an adjustment may not be made by the department to the taxable percentage rate for class four property until~~ In the year in which a revaluation has been made as provided in 15-7-111, the department shall determine a percentage rate for the taxation of class four property for subsequent tax years. The percentage rate is determined by:

(i) decreasing the previous class four taxation percentage rate by the same percentage rate that the valuation of class four property increased since the previous revaluation; or

(ii) increasing the previous class four taxation percentage rate by the same percentage rate that the valuation of class four property decreased since the previous revaluation.

(b) In calculating the percentage change, the department shall by rule provide a method for adjusting value to account for new construction and deletions. The percentage rate in effect until the completion of first revaluation after December 31, 1995, is 3.86%.

(4) Within the meaning of comparable property as defined in 15-1-101, property assessed as commercial property is comparable only to other property assessed as commercial property, and property assessed as other than commercial property is comparable only to other property assessed as other than commercial property."

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0183, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:

An act indexing the property tax rate for class four property; providing that the new rate be based upon changes in valuation of class four property due to periodic revaluation; providing that changes because of new construction and deletions are to be adjusted in indexing the new property tax rate.

FISCAL IMPACT:

Expenditures:

The proposal has no impact on Department of Revenue expenditures.

Revenues:

The proposal does not impact FY96 or FY97 property tax revenues. The proposal will begin to impact property tax revenues in FY98 (see technical note 1). The impact to property tax revenues would be dependant on the economic conditions contributing to market value change. Since it is impossible to predict these factors, an impact of the proposal to property tax revenues cannot be calculated. However, some general statements about the long term impact of the proposal are stated below.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The proposal does not impact FY96 or FY97 property tax revenues of local governments. The proposal will begin to impact property tax revenues of local governments in FY98.

(Continued page 2)

Dave Lewis 1-18-95

DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

JOHN COBB, PRIMARY SPONSOR DATE
Fiscal Note for HB0183, as introduced

HB 183

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

The computation in the proposal for the taxable rate for class four property will result in reduced tax bases for state government and most local governments. Contrary to initial intuition, the new taxable rate as calculated in the proposal does not result in taxable value neutrality (new construction and deletions notwithstanding) of class four property (see technical note 2). This reduction occurs even if total statewide appraised value of class four property decreases due to reappraisal.

For the university levy, state equalization levy, and any other fixed levy, the proposal results in a reduction in revenues. The extent of reduced revenues depends on the economic conditions that affect market values of residential property.

Since the taxable rate of class three property (ag land) is tied to the taxable rate of class four property (15-6-133(2), MCA), the taxable value of class three property is impacted by the proposal. The impact depends on the change in the taxable rate applied to class four property.

The proposal will also have an impact to the taxable rate applied to class 12 property (railroads and airlines). The extent of this impact is dependent on the change in the taxable rate applied to class four property and the magnitude of the contribution of the class four commercial property component of the class 12 taxable rate computation.

TECHNICAL NOTES:

1) The proposal states that the new taxable rate will be determined in the year in which a revaluation has been made and then applied in subsequent tax years (section 1 (3)(a)). It is not clear as to what year "in the year in which a revaluation has been made" refers to. New appraised values are scheduled to appear on the tax rolls on January 1, 1997. If this is the year in which a revaluation has been made, then the new taxable rate for class four property would be first applied in tax year 1998.

2) If, notwithstanding new construction and deletions, the proposal was intended to be class four taxable value neutral, it is not. This is due to the method in the proposal for computing the new taxable rate for class four property. In the case of an increase *or* a decrease in the total valuation due to reappraisal, the method results in a reduction in the total taxable value of class four property (notwithstanding new construction and deletions). The percent reduction is the square of the percentage change in valuation. For example, if the valuation of class four property increases 30% (.30), then, given the new taxable rate as computed in the proposal, the total taxable value will increase by 9% (.09). Or, if the valuation of class four decreases 20% (.20), then, given the new taxable rate as computed in the proposal, the total taxable value will decrease by 4% (.04).