House BILL NO. 558

INTRODUCED BY Martinez

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING FROM PROPERTY TAXATION CERTAIN OWNER-OCCUPIED RESIDENCES OWNED BY ELDERLY PERSONS; REQUIRING THE OWNER'S INCOME TO BE LIMITED TO RETIREMENT INCOME AND LIMITING THE OWNER TO $6,000 IN CERTAIN ASSETS IN ORDER TO BE ELIGIBLE FOR THE EXEMPTION; LIMITING THE EXEMPTION TO HOMES WITH ASSESSED VALUATION OF LESS THAN $65,000, BUT ALLOWING AN EXEMPTION OF THAT AMOUNT FOR HOMES WITH AN ASSESSED VALUATION OF LESS THAN $85,000; AMENDING SECTION 15-6-201, MCA; AND PROVIDING AN APPLICABILITY DATE."

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

NEW SECTION. **Section 1. Residential exemption -- retired owner occupants.** (1) Qualifying residences with a market value of less than $65,000 and owned by eligible persons are exempt from taxation as provided in this section. Qualifying residences owned by eligible persons and having a market value that is greater than $64,999 but less than $85,000 are taxable only on the amount of assessed value in excess of $64,999.

(2) To be eligible for an exemption in residential property tax, the following conditions must be met:

(a) The eligible property must be used as a residence, including a trailer or mobile home used as a residence, and may include not more than 5 acres of appurtenant land.

(b) The residence must be owned or be in the process of being purchased under contract for deed by the occupant and be actually occupied for at least 10 months a year as the owner's or purchaser's primary residential dwelling.

(c) The residence must have an assessed valuation of less than $85,000.

(d) The owner must be at least 62 years of age during the property tax year in which the reduction is claimed or, if the owner is a husband and wife, then either one of them must be 62 years of age.

(e) The owner's, or husband's and wife's if the owner is a husband and wife, sole assets, not including any value of the residence, appurtenant land, furnishings, appliances, wearing apparel, and one motor vehicle and cash value of life insurance or burial insurance, may not exceed $6,000.

(f) The owner's, or husband's and wife's if the owner is a husband and wife, sole sources of income are from social security benefits, railroad retirement benefits, or pension and annuity income as defined in 15-30-101.

(3) A person applying for an exemption from taxation under this section shall provide a complete affidavit to the department of revenue, on a form provided by the department, setting forth that the applicant and the property meet the requirements of subsection (2). The form may require the applicant to supply other information that may be relevant to the applicant's eligibility. The application must be made prior to April 15 of the year in which the exemption is to begin. The exemption remains in effect in subsequent years unless there is a change in the applicant's or the property's status that would result in a change in eligibility. The department may inquire by mail whether any change has taken place and may require a new statement of eligibility if it considers it necessary.

(4) The exemption amounts enumerated in subsection (1) must be adjusted for inflation annually by the department. The adjustment is determined by multiplying the appropriate dollar amount by the ratio of the implicit price deflator for the second quarter of the previous year to the implicit price deflator for the second quarter of 1995 and rounding off the product to the nearest dollar. The department shall use 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.

Section 2. Section 15-6-201, MCA, is amended to read:

"**15-6-201. Exempt categories.** (1) The following categories of property are exempt from taxation:

(a) except as provided in 15-24-1203, the property of:

(i) the United States, except:

(A) if congress passes legislation that allows the state to tax property owned by the federal government or an agency created by congress; or

(B) as provided in 15-24-1103;

(ii) the state, counties, cities, towns, and school districts;

(iii) irrigation districts organized under the laws of Montana and not operating for profit;

(iv) municipal corporations;

(v) public libraries; and

(vi) rural fire districts and other entities providing fire protection under Title 7, chapter 33;

(b) buildings, with land they occupy and furnishings in the buildings, owned by a church and used for actual religious worship or for residences of the clergy, together with adjacent land reasonably necessary for convenient use of the buildings;

(c) property used exclusively for agricultural and horticultural societies, for educational purposes, and for nonprofit health care facilities, as defined in 50-5-101, licensed by the department of health and environmental sciences and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of health and environmental sciences and organized under Title 35, chapter 2 or 3, is not exempt.

(d) property that meets the following conditions:

(i) is owned and held by any association or corporation organized under Title 35, chapter 2, 3, 20, or 21;

(ii) is devoted exclusively to use in connection with a cemetery or cemeteries for which a permanent care and improvement fund has been established as provided for in Title 35, chapter 20, part 3; and

(iii) is not maintained and operated for private or corporate profit;

(e) property owned by institutions of purely public charity and directly used for purely public charitable purposes;

(f) evidence of debt secured by mortgages of record upon real or personal property in the state of Montana;

(g) public museums, art galleries, zoos, and observatories not used or held for private or corporate profit;

(h) all household goods and furniture, including but not limited to clocks, musical instruments, sewing machines, and wearing apparel of members of the family, used by the owner for personal and domestic purposes or for furnishing or equipping the family residence;

(i) a truck canopy cover or topper weighing less than 300 pounds and having no accommodations attached. This property is also exempt from taxation under 61-3-504(2) and 61-3-537.

(j) a bicycle, as defined in 61-1-123, used by the owner for personal transportation purposes;

(k) motor homes, travel trailers, and campers;

(l) all watercraft;

(m) motor vehicles, land, fixtures, buildings, and improvements owned by a cooperative association or nonprofit corporation organized to furnish potable water to its members or customers for uses other than the irrigation of agricultural land;

(n) the right of entry that is a property right reserved in land or received by mesne conveyance (exclusive of leasehold interests), devise, or succession to enter land whose surface title is held by another to explore, prospect, or dig for oil, gas, coal, or minerals;

(o) property owned and used by a corporation or association organized and operated exclusively for the care of the developmentally disabled, mentally ill, or vocationally handicapped as defined in 18-5-101, which is not operated for gain or profit, and property owned and used by an organization owning and operating facilities for the care of the retired, aged, or chronically ill, which are not operated for gain or profit;

(p) all farm buildings with a market value of less than $500 and all agricultural implements and machinery with a market value of less than $100;

(q) property owned by a nonprofit corporation organized to provide facilities primarily for training and practice for or competition in international sports and athletic events and not held or used for private or corporate gain or profit. For purposes of this subsection (q), "nonprofit corporation" means an organization exempt from taxation under section 501(c) of the Internal Revenue Code and incorporated and admitted under the Montana Nonprofit Corporation Act.

(r) the first $15,000 or less of market value of tools owned by the taxpayer that are customarily hand-held and that are used to:

(i) construct, repair, and maintain improvements to real property; or

(ii) repair and maintain machinery, equipment, appliances, or other personal property;

(s) harness, saddlery, and other tack equipment;

(t) a title plant owned by a title insurer or a title insurance producer, as those terms are defined in 33-25-105;

(u) ~~beginning January 1, 1994,~~ timber as defined in 15-44-102; ~~and~~

(v) all trailers and semitrailers with a licensed gross weight of 26,000 pounds or more. For purposes of this subsection (v), the terms "trailer" and "semitrailer" mean a vehicle with or without motive power that is:

(i) designed and used only for carrying property;

(ii) designed and used to be drawn by a motor vehicle; and

(iii) either constructed so that no part of its weight rests upon the towing vehicle or constructed so that some part of its weight and the weight of its load rests upon or is carried by another vehicle.

<u>(w) a qualifying residence, or the first $65,000 of assessed value of a qualifying residence that has an assessed value between $65,000 and $85,000, as provided in [section 1].</u>

(2) (a) The term "institutions of purely public charity" includes any organization that meets the following requirements:

(i) The organization qualifies as a tax-exempt organization under the provisions of section 501(c)(3), Internal Revenue Code, as amended.

(ii) The organization accomplishes its activities through absolute gratuity or grants; however, the organization may solicit or raise funds by the sale of merchandise, memberships, or tickets to public performances or entertainment or by other similar types of fundraising activities.

(b) For the purposes of subsection (1)(g), the term "public museums, art galleries, zoos, and observatories" means governmental entities or nonprofit organizations whose principal purpose is to hold property for public display or for use as a museum, art gallery, zoo, or observatory. The exempt property includes all real and personal property reasonably necessary for use in connection with the public display or observatory use. Unless the property is leased for a profit to a governmental entity or nonprofit organization by an individual or for-profit organization, real and personal property owned by other persons is exempt if it is:

(i) actually used by the governmental entity or nonprofit organization as a part of its public display;

(ii) held for future display; or

(iii) used to house or store a public display.

(3) The following portions of the appraised value of a capital investment made after January 1, 1979, in a recognized nonfossil form of energy generation or low emission wood or biomass combustion devices, as defined in 15-32-102, are exempt from taxation for a period of 10 years following installation of the property:

(a) $20,000 in the case of a single-family residential dwelling;

(b) $100,000 in the case of a multifamily residential dwelling or a nonresidential structure."

<u>NEW SECTION.</u> **Section 3. Codification instruction.** [Section 1] is intended to be codified as an integral part of Title 15, chapter 6, part 2, and the provisions of Title 15, chapter 6, part 2, apply to [section 1].

NEW SECTION. **Section 4. Applicability.** [This act] applies to tax years beginning after December 31, 1995.

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STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0558, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
An act exempting from property taxation certain owner-occupied residences owned by elderly persons; requiring the owner's income to be limited to retirement income and limiting the owner to $6,000 in certain assets in order to be eligible for the exemption; limiting the exemption to homes with assessed valuation of less than $65,000, but allowing an exemption of that amount for homes with an assessed valuation of less than $85,000; and providing an applicability date.

ASSUMPTIONS:
1. This bill applies beginning with tax year 1996.
2. In tax year 1996 there will be approximately 60,000 owner-occupied residences owned by taxpayers age 62 or older in Montana (based on annual census data through 1993 of the number of owner-occupied residences by age group, the historic percentage of total owner-occupied homes owned by taxpayers age 62 or older, and projections of total owner-occupied residences to tax year 1996--MDOR).
3. In tax year 1993, 14% of all homeowners filing for the current law elderly homeowner/renter tax credit had total incomes that were comprised solely of income sources required for qualification under the proposal provided for in this bill.
4. Based on assumption #3, 8,400 homeowners would qualify for the property tax exemption provided for in the proposal.
5. Approximately 50% of those taxpayers qualifying under the income test in assumption #4 would not qualify due to the assets test required in the bill. This results in a total of approximately 4,200 households qualifying for the exemption.
6. Households qualifying for the exemption have an average assessed valuation of $52,000; are subject to a taxable valuation rate of 3.86%; and pay the statewide average mill levy on residential property of 387 mills.
7. This results in a total property tax reduction of $3,263,400 distributed 1.5% to universities; 23.6% to the school equalization aid account; 20.1% to counties; 41.6% to local school districts; and 13.2% to cities and towns.
8. Taxpayers qualifying for and receiving the exemption provided for in this proposal no longer will receive the individual income tax credit provided for in the current law elderly homeowner/renter program. These taxpayers currently are receiving the average benefit of $275 under this program (tax year 1993). This increases state general fund revenue a total of $1,155,000 beginning in FY97.
9. This proposal results in increased administrative expense, as detailed in the fiscal impact section under expenditures.
10. The Department of Revenue would not audit and monitor the income sources and asset qualifications of applicants under this proposal. The department would rely solely on the affidavits required under the proposal and filed by the taxpayer as the compliance mechanism for this bill.

(continued)

Dave Lewis 2·23·95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Bonnie Martinez
BONNIE MARTINEZ, PRIMARY SPONSOR DATE

Fiscal Note for HB0558, as introduced

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11. One-time additional administrative expenses in FY96 would be required for advertising the proposal, additional computer programming costs to enhance the CAMA system; and a system upgrade to handle the increased database requirements. The additional data for exemptions would require additional data storage capacity for the department's mid-range computer which processes the CAMA system. The additional disk storage necessary is estimated to cost approximately $100,000. The department has determined that disk storage upgrade alone would not be cost effective. An upgraded model would provide the additional required disk storage plus a number of other advantages including faster processing speed and lower maintenance costs. The cost of a model upgrade would be $248,875.
12. On-going additional administrative expenses beginning in FY96 include 4.10 FTE plus operating expenses.

FISCAL IMPACT:

Expenditures:	FY96 Difference	FY97 Difference
FTE	4.10	4.10
Personal Services	77,862	77,862
Operating Expenses	33,244	25,844
Equipment	248,875	0
Total	359,981	103,706
Funding:		
General Fund (01)	359,981	103,706
Revenues:		
Property Tax	0	(819,113)
Individual Income Tax	0	1,155,000
Total	0	335,887
Net Impact: (Revenues - Expenditures)		
General Fund (01)	(359,981)	232,181

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
This proposal results in a partial transfer of funding residential property tax relief away from the state to local governments. As a result, the proposal reduces revenue in FY97 and each fiscal year thereafter by $655,943 to county governments; by $1,357,575 to local schools; and by $430,769 to cities and towns.