House BILL NO. 443

INTRODUCED BY Swanson Halligan McRyan Feyer Gillan Franklin Doherty

A BILL FOR AN ACT ENTITLED: "AN ACT EXCLUDING THE FIRST $50,000 OF MARKET VALUE OF AN OWNER-OCCUPIED SINGLE-FAMILY RESIDENCE FROM TAXATION; AMENDING SECTIONS 15-6-134 AND 15-6-201, MCA; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

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

NEW SECTION. **Section 1. Exclusion of market value for owner-occupied residences.** The first $50,000 or less of market value of any single-family residence actually occupied by the owner or owners as a primary residence for at least 10 months a year is exempt from taxation. Absence because of ill health does not disqualify a homeowner on the grounds of occupancy. Occupancy eligibility must be determined on a proportional basis if necessary in the year in which the property is sold or a taxpayer dies.

Section 2. 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 ~~$100,000~~ $50,000 or less of the market value, after the application of the exemption under 15-6-201(1)(x), 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 7 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 $15,000 for a single person or $20,000 for a married couple or a head of household, as adjusted according to subsection (2)(b)(ii). For the purposes of this subsection (1)(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 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, including 1 acre of real property beneath improvements on land described in 15-6-133(1)(c). 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% of its market value.

(b) (i) Property qualifying under the property tax assistance program in subsection (1)(c) is taxed at 3.86% of its 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 - $ 6,000	$ 0 -$ 8,000	20%
6,001 - 9,200	8,001 - 14,000	50%
9,201 - 15,000	14,001 - 20,000	70%

(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 1995; 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) 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."

Section 3. 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 <u>that</u> 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 public health and human services and organized under Title 35, chapter 2 or 3. A health care facility that is not licensed by the department of public health and human services and organized under Title 35, chapter 2 or 3, is not exempt.

(d) property that is:

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

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

(e) property owned or property that is leased from a federal, state, or local governmental entity by institutions of purely public charity if the property is 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 with a surface title that is held by another to explore, prospect, or dig for oil, gas, coal, or minerals;

(o) property that is owned and used by a corporation or association organized and operated exclusively for the care of persons with developmental disabilities, the mentally ill, or the vocationally handicapped, as defined in 18-5-101, and that is not operated for gain or profit and property owned and used by an organization owning and operating facilities that are for the care of the retired, aged, or chronically ill and that 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 that is 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 (1)(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) timber as defined in 15-44-102;

(v) all trailers and semitrailers that have a licensed gross weight of 26,000 pounds or more or that are registered through a proportional registration agreement under 61-3-721. For purposes of this subsection (1)(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.

(w) all vehicles registered under 61-3-456~~.~~;

(x) the first $50,000 or less of market value of any single-family residence as provided in [section 1].

(2) (a) For the purposes of subsection (1)(e), 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 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 4. Effective date -- retroactive applicability.** [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1996.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0443, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
An act excluding the first $50,000 of market value of an owner-occupied single-family residence from taxation; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:
1. The proposal applies retroactively to tax years beginning after December 31, 1996.
2. In tax year 1997 there will be 231,927 owner-occupied residences. There will be 236,046 in tax year 1998.
3. It is assumed that land value is included in the $50,000 exemption.
4. The loss in taxable value due to exempting the first $50,000 market value of an owner-occupied dwelling is $346.7 million in tax year 1997 and $352.8 million in tax year 1998.
5. The loss in taxable value due to exempting the first $50,000 market value of an owner occupied dwelling on property for which the 9 mill state assumption of welfare is levied is $180.2 million in tax year 1997 and $183.4 million in tax year 1998.
6. The loss in taxable value due to exempting the first $50,000 market value of an owner occupied dwelling on property for which the 1.5 vo-tech mill is levied is $149.8 million in tax year 1997 and $152.4 million in tax year 1998.
7. Homeowners would have to apply annually to get the exemption.
8. There would be operating expenses of $123,430 in FY98 and $103,585 in FY99 for the development, printing and mailing of the application forms.
9. The proposal would require 20 grade 8 employees to provide taxpayer assistance and monitor applications (equivalent to 1.67 FTE in FY97, 20 FTE in FY 98 and 12.5 FTE in FY99); and one grade 15 tax appraisal specialist (equivalent to 1/12 FTE in FY97 and 1 FTE in FY98 and FY99). Personal services expenses would be $37,025 in FY97; $444,300 in FY98 and $290,603 in FY99; operating expenses would be $3,465 in FY97, $83,720 in FY98 and FY99 which include $40,000 for mainframe computer processing; and there would be a one-time equipment cost of $71,500 in FY97.
10. The proposal would also require hiring 12 temporary data entry people equivalent to 1 FTE, grade 7, in FY98 and FY99; one temporary grade 15 programmer (equivalent to 1/6 FTE in FY97); and one temporary grade 6 employee to open mail and sort applications, (equivalent to .1769 FTE in FY98 and FY99). Personal services expenses would be $5,751 in FY97 and $22,282 in FY98 and FY99; operating expenses would be $2,520 in FY98 and FY99; and there would be a one-time equipment cost of $42,300 in FY98.
11. Property taxes are paid in FY98 for tax year 1997 and in FY99 for tax year 1998.
12. There would be a one time computer vendor programming cost of $25,133 to make the necessary adjustments to CAMAS to allow for the exemption in FY97.

FISCAL IMPACT:
Expenditures: (General Fund)
Due to the retroactive date of the bill there would be expenses incurred in FY97. They are as follows: a one time equipment cost of $71,500; personal services of $42,776 (1.92 FTE); and $28,598 in operating expenses, for a total of $142,874.

	FY98 Difference	FY99 Difference
FTE	22.18	14.68
Personal services	466,582	312,885
Operations	209,670	189,825
Equipment costs	42,300	0
Total	718,552	502,710

(Fiscal Impact - continued page 2)

Dave Lewis 2-12-97
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Emily Swanson 2/13/97
EMILY SWANSON, PRIMARY SPONSOR DATE

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Revenues:
There would be a loss in FY97 revenue for owner-occupied mobile homes not liened to real property. This is due to the retroactive date of the proposal. The first half of property taxes for this group of residences is due 30 days from the date of notice of taxes due. This loss would be to the 101 state mills, the 9 mill state assumption of welfare mills, and the 1.5 vo-tech mills. The loss of property tax associated with this group of residences is not available at this time.

Source of Revenue:	FY98 Difference	FY99 Difference
101 Mills	(35,000,000)	(35,600,000)
9 Mill Assumption	(1,600,000)	(1,700,000)
1.5 Vo-tech	(200,000)	(200,000)
Total	(36,800,000)	(37,500,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
There would be a loss in FY97 local government revenues for property taxes paid on mobile homes not attached to real property. This is due to the retroactive date of the proposal. The first half of property taxes for this group of residences is due 30 days from the date of notice of taxes due.

There could be losses to local governments in FY98 and FY99 to the extent that they could not adjust their mill levies to make up for the loss in taxable value due to the proposal.

TECHNICAL NOTES:
The first half of property taxes on mobiles homes not attached to real property may already have been paid for 1997 by the time the proposal is implemented. For owner-occupied mobile homes, taxes would have to be adjusted and may involve refunds.

To qualify for the exemption a taxpayer must occupy the home as a primary residence for at least 10 months a year. It is not clear if this 10 months is the year immediately preceding the exemption year.

There will be a delay in certifying taxable values to local jurisdictions due to the retroactive date of the proposal. This will also delay the mailing of assessment notices which could delay mailing of tax statements.