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# Montana Department of Revenue



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## Memorandum

**To:** Revenue and Transportation Interim Committee  
**From:** Larson Silbaugh, Economist  
**Date:** April 29<sup>th</sup>, 2010  
**Subject:** Analysis of the Extended Property Tax Assistance Program

During the February meeting, the Revenue and Transportation Interim Committee asked the department to analyze the Extended Property Tax Assistance Program (EPTAP). This memo describes how EPTAP works and the costs of the program. Attached are three sheets of data on the properties that applied for the EPTAP program and all of the class codes that are required to administer EPTAP.

### Program Parameters

EPTAP provides property tax assistance to eligible homeowners who had a large increase in the value of their property because of reappraisal. The benefit is a limit to the annual increase in taxable value and has three tiers depending on the homeowner's total income, as seen in the table below. There are three criteria for being eligible for the program:

1. Taxpayer's income is less than \$75,000.
2. Property's appreciation between 2002 and 2008 is at least 24%.
3. Taxes increased by at least \$250 (calculated by applying the 2008 mills to the 2014 taxable value).

EPTAP Eligibility				
Income Range	Percent Increase in Taxable Value	Dollar Increase in Taxes in Last Year of Phase-In Cycle	Benefit: Cap in Annual Increase of Taxable Value	
\$0 - \$25,000	24%	\$250	4%	
\$25,000 - \$50,000	30%	\$250	5%	
\$50,000 - \$75,000	36%	\$250	6%	

The example below shows a property owner with an income of \$20,000 whose home had a market value increase from \$125,000 to \$250,000. The taxable value is lower each year

because the increases are capped at 4% annually. Assuming that there are 535 mills each year, EPTAP reduces the property taxes paid by \$63 in the first year to \$103 in the last year.

Simplified EPTAP Example							
2002 Market Value	\$125,000						
2008 Market Value	\$250,000						
Income	\$20,000						
	2008	2009	2010	2011	2012	2013	2014
Phase In Values	\$125,000	\$145,833	\$166,667	\$187,500	\$208,333	\$229,167	\$250,000
Statutory Tax Rate	3.01%	2.93%	2.82%	2.72%	2.63%	2.54%	2.47%
Pre-EPTAP Taxable Values	\$2,483	\$2,700	\$2,844	\$2,968	\$3,068	\$3,172	\$3,273
EPTAP Tax Rate for This Property		2.80%	2.66%	2.55%	2.47%	2.39%	2.32%
Post-EPTAP Taxable Values	\$2,483	\$2,583	\$2,682	\$2,781	\$2,881	\$2,980	\$3,079
Difference in Taxable Values		\$118	\$162	\$187	\$188	\$193	\$193
Difference in Taxes (535 mills)		\$63	\$87	\$100	\$100	\$103	\$103

The example is for one home, but there were 293 separate tax rates and associated class codes required to administer EPTAP in 2009. There are a total of 840 class codes, so 35% of class codes are only maintained by the department to benefit 3,254 taxpayers and they are applied to less than 0.10% of the tax base. A list of the class codes and tax rates are included.

### Financial Impact of the Program

The EPTAP property tax reduction is financed two ways. The first is a reduction in the 101-mill revenue. The second is a property tax shift to other property taxpayers in the taxing jurisdiction. This is because EPTAP is administered through a reduction in taxable value for some residential properties.

**101 mills** – The state levies 95 school equalization mills that are deposited in the state general fund and 6 university mills, collectively known as the 101 mills. For 2009, the EPTAP properties had their taxable value reduced by \$1,453,382. This reduced the 101-mill revenue by \$146,792.

**Property tax shift** – In a less obvious way, the EPTAP program is financed through shifting property taxes to other property tax payers in the taxing jurisdiction. Because of 15-10-420, MCA, local governments are allowed to levy a certain amount to finance local government operations. A reduction in the tax base increases mills, with all else held constant. In 2009, the \$1,453,382 reduction in the statewide tax base increased mills so that \$458,705 was shifted to other property taxpayers in the state. With EPTAP, the taxes of properties that appreciated more rapidly because of market conditions are shifted to taxpayers that were not as fortunate to have wealth created in the real estate market.

Financial Impact of EPTAP	
Reduced State Revenue (101 Mills)	\$146,792
Property Tax Shift	\$458,705