

Subchapter 5

Phase-In Valuation

42.20.501 DEFINITIONS The following definitions apply to this subchapter:

(1) "2002 tax year value" means the market value of a property which appears on the 2002 property tax record of that property.

(2) "Annual appraisal trend factor class five" means a factor used to annually reappraise class five qualifying air and water pollution control property, new industrial property, gasohol facilities, qualifying research and development firms, and electrolytic reduction facilities real property by trending their cost values up or down based on accepted cost indices.

(3) "CDU rating" means a composite rating of the overall condition, desirability, and usefulness of a structure, used nationally as a simple, direct, and uniform method of estimating accrued depreciation.

(4) "Comstead exemption" means the percentage of phase-in value of commercial property that is exempt from taxation pursuant to 15-6-222, MCA.

(5) "Current year phase-in value" is the difference between the reappraisal value and the value before reappraisal (VBR) times the phase-in percentage, added to the VBR. The current year phase-in value is the amount subject to tax each year, and is determined by the following formula:

Current year phase-in value =
 $[(\text{Reappraisal (REAP) value} - \text{VBR}) \times \text{phase-in \%}] + \text{VBR}$

(6) "Destruction" means the removal or deletion of improvements, buildings, living areas, garages, and out-buildings caused by burning, razing, or natural disaster.

(7) "Dwelling unit" is defined as a building or portion of a building that contains living facilities with provision for sleeping, eating, cooking, and sanitation for one or more persons.

(8) "Full reappraisal to taxable value conversion factor for class four commercial property" is the total taxable value of class four commercial property divided by the total reappraisal value of the same class four commercial property.

(9) "Full reappraisal to taxable value conversion factor for class four residential" is the total taxable value of class four residential property divided by the total reappraisal value of the same class four residential property.

(10) "Homestead exemption" means the percentage of phase-in value of residential property that is exempt from taxation pursuant to 15-6-222, MCA.

(11) "Improvement grade change" means a change in the quality of construction of an improvement. Each improvement grade signifies a different level of construction quality. Examples of improvement grades include, but are not limited to, the following:

- (a) 1F-1 = cheap construction;
- (b) 1F-5 = average construction; and
- (c) 1F-9 = superior construction.

(12) "Land productivity change (grade change)" means a change in the productive capacity or yield of agricultural or forest land. In a land productivity change, the land use does not change; rather, the land as currently used simply becomes more or less productive. For example, a productivity change in grazing land may occur when it is discovered that the productivity potential has decreased due to a new saline seep on the land. Because the land continues to be used as grazing land, the department shall continue to classify the land as agricultural grazing land, but the grade of the grazing land may be changed to reflect its lessened productivity.

(13) "Land reclassification" means changing the use of land from one type of agricultural use to a different type of agricultural use. For example, a land reclassification occurs when agricultural land that was previously used as grazing land is converted to irrigated land. In a land reclassification, the land is dedicated to agricultural purposes both before and after the change in land use. It is this characteristic that distinguishes a land reclassification from the more general land use change.

(14) "Land split" means the division of a single property into two or more properties for the ultimate purpose of conveying one or more of the properties to a new owner or owners.

(15) "Land use change" means the conversion of a current use of land to a different, alternate use. Land splits shall be considered land use changes. Examples of land use changes contained in this definition include, but are not limited to, the following:

- (a) agricultural land converted to tract land;
- (b) forest land converted to tract land;
- (c) forest land converted to agricultural land; or
- (d) land that is converted to another use due to a subdivision of real property.

(16) "Living area" means any room or group of rooms designed as the living quarters of one family or household, equipped with cooking and toilet facilities, and having an independent entrance from a public hall or from the outside.

(17) "Neighborhood (NBHD) group percentage" means the percent of change in value from the total 2002 tax year value to the total 2003 reappraisal value, excluding properties with new construction, for those homogeneous areas within each county or between counties that have been defined as a neighborhood group. The neighborhood group percentage is determined by using the following formula:

$$\text{Neighborhood Group Percentage} = \frac{\text{Total 2003 NBHD REAP Value} - \text{Total 2002 NBHD Tax Year Value}}{\text{Total 2002 NBHD Tax Year Value}}$$

(a) Individual neighborhood group percentages will be determined for residential land, commercial land, residential improvements, and commercial improvements.

(18) "New construction" means the construction, addition, or substitution of improvements, buildings, living areas, garages, and outbuildings; or the extensive remodeling of existing improvements, buildings, living areas, garages, outbuildings, land reclassification, and land use changes.

(19) "New construction trend factor for industrial property" means a factor used to adjust reappraisal values and VBRs (values before reappraisal) in instances where the property has new construction or destruction. The factor will be derived from nationally accepted cost indices.

(20) "Phase-in percentage" for tax years 2003 through 2008 is 16.6% per year. The phase-in percentage accumulates annually.

(21) The "previous year tax revenue" means the product of multiplying the previous tax year total taxable value for each taxing jurisdiction by the previous year mill levy for that taxing jurisdiction.

(22) "Reappraisal (REAP) value" means the full 2003 value determined for the current reappraisal cycle pursuant to 15-7-111, MCA, adjusted annually for new construction or destruction. The 2003 reappraisal value reflects a market value of the property on January 1, 2002. A current year REAP value is the same as the 2003 reappraisal value of the property if there is no new construction, destruction, land splits, land use changes, land reclassifications, land productivity changes, improvement grade changes, or other changes made to the property during 2003 or subsequent tax years.

(23) "Subdivision of real property" means the first sale of a land parcel that results in the land being taxable as class four as described in 15-6-134, MCA, or nonagricultural land as described in 15-6-133(1)(c), MCA.

(24) "Taxable market value" means that portion of the total market value subject to taxation after the total market value has been adjusted, if applicable, for the phase-in of value, and the homestead/comstead exemption.

(25) "Value before reappraisal (VBR)" means the 2002 tax year value adjusted for any new construction or destruction that occurred in the prior year. The VBR for the 2003 tax year and subsequent years is the same as the 2002 tax year value if there is no new construction, destruction, land splits, land use changes, land reclassifications, land productivity changes, improvement grade changes, or other changes made to the property during 2002 or subsequent tax years. (History: 15-1-201, 15-7-111, MCA; IMP, 15-6-222, 15-7-111, 15-10-420, MCA; TEMP, NEW, 1997 MAR p. 1593, Eff. 9/9/97; AMD, 1999 MAR p. 2905, Eff. 12/17/99; AMD, 2003 MAR p. 315, Eff. 2/28/03; AMD, 2006 MAR p. 3103, Eff. 12/22/06.)

42.20.502 DETERMINATION OF VALUE BEFORE REAPPRAISAL (VBR), EXCLUDING INDUSTRIAL PROPERTIES (1) For property that contains no new construction, destruction, land splits, land use changes, land reclassifications, land productivity changes, improvement grade changes, or other changes made to the property during 2002 or subsequent tax years, the current year VBR will be the same as the prior year VBR.

(2) For class three property that contains a land reclassification or a land use change, the current year VBR will be the prior year VBR of the new classification or land use change.

(3) For class three property that contains a productivity or grade change, the current year VBR will be the prior year VBR of the prior grade.

(4) For class four property (excluding industrial property) that contains new construction, the current year VBR is determined by dividing the reappraisal value by one plus the percent of neighborhood group change. The following formula illustrates that calculation:

$$\text{VBR} = \text{Reappraisal value} / (1 + \text{NBHD group percentage})$$

(5) Land which has been reclassified as residential or commercial land after January 1, 2002, will have the VBR determined by comparing other 2002 market values of similar residential or commercial land, and determining a comparable VBR for the new residential or commercial land.

(6) For class four property (excluding industrial property) that has been either partially or wholly destroyed, the current year VBR is calculated by first determining what percent of the property has been destroyed. That percent is multiplied by the prior year improvement VBR to determine a value amount that is attributed to the destruction. The current year VBR is then the difference between the prior year VBR and the value attributed to the destruction. The following formula illustrates that calculation:

$$\begin{aligned} \text{Current year VBR} = & \\ \text{Prior year VBR} - & \\ (\text{Percent of property destroyed} \times & \text{prior year improvement VBR}) \end{aligned}$$

(7) For class ten property that contains a land reclassification or a land use change, the current year VBR will be the prior year VBR of the new classification or land use change.

(8) For class ten property that contains a productivity or grade change, the current year VBR will be the prior year VBR of the prior grade.

(9) The only instances when the current year VBR will be less than the prior year VBR are:

- (a) in the case of class four improvements that have been partially or wholly destroyed;
- (b) when the neighborhood group percentage change is negative and there is new construction; or
- (c) when land use changes have occurred.

(10) In all other situations, the current year VBR will be the greater of the value determined through application of the formula in (4) or the prior year VBR. (History: 15-1-201, 15-7-111, MCA; IMP, 15-7-111, MCA; TEMP, NEW, 1997 MAR p. 1593, Eff. 9/9/97; AMD, 2002 MAR p. 3424, Eff. 12/13/02.)

42.20.503 DETERMINATION OF CURRENT YEAR PHASE-IN VALUE FOR CLASS THREE, CLASS FOUR, AND CLASS TEN PROPERTY (1) For tax years 2003 through 2008, the department is required to determine the current year phase-in value for each property in class three, class four, and class ten annually. The current year phase-in value is determined by subtracting the 2002 VBR from the 2003 reappraisal value multiplied by the applicable phase-in percentage, the product of which is added to the 2002 VBR value. The calculations of the phase-in values are represented by the following formula:

2003 Phase-in =
 $[(2003 \text{ reappraisal value} - 2002 \text{ VBR value}) \times 16.66\%]$
 + 2002 VBR

2004 Phase-in =
 $[(2003 \text{ reappraisal value} - 2002 \text{ VBR value}) \times 33.32\%]$
 + 2002 VBR

2005 Phase-in =
 $[(2003 \text{ reappraisal value} - 2002 \text{ VBR value}) \times 49.98\%]$
 + 2002 VBR

2006 Phase-in =
 $[(2003 \text{ reappraisal value} - 2002 \text{ VBR value}) \times 66.64\%]$
 + 2002 VBR value

2007 Phase-in =
 $[(2003 \text{ reappraisal value} - 2002 \text{ VBR value}) \times 83.30\%]$
 + 2002 VBR value

2008 Phase-in =
 2003 reappraisal value

(History: 15-1-201, 15-7-111, MCA; IMP, 15-7-111, MCA; TEMP, NEW, 1997 MAR p. 1593, Eff. 9/9/97; AMD, 1999 MAR p. 2905, Eff. 12/17/99; AMD, 2002 MAR p. 3424, Eff. 12/13/02; AMD, 2007 MAR p. 119, Eff. 12/22/06.)

42.20.504 NEW CONSTRUCTION DETERMINATION (1) The following criteria will be used to identify new construction and destruction:

- (a) all residential or commercial structures, out-buildings, and mobile homes that were built, remodeled, or destroyed in the preceding year;
- (b) properties with new, attached garages built in the preceding year;
- (c) properties which had any land reclassification or land use changes; or
- (d) properties with out-buildings built in the preceding year.