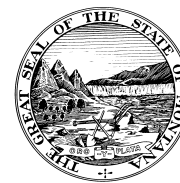


**Dan Bucks**  
Director

# Montana Department of Revenue



**Brian Schweitzer**  
Governor

To: Revenue and Transportation Interim Committee  
 From: Larson Silbaugh, Economist, Tax Policy and Research  
 Date: February 17, 2010  
 Subject: Reduced Notch Effects of PTAP and DAV Programs

At the December meeting of the Revenue and Transportation Interim Committee, the Department was asked to provide information on revising the existing property tax assistance programs to reduce the “notch” effects. A notch effect is created when an increase in income creates a loss of tax benefit that is greater than the increase in income. In response to that request, this memo describes how the Disabled American Veterans (DAV) tax assistance program and the Property Tax Assistance Program (PTAP) were modeled to reduce notch effects while attempting to maintain the same income requirements and benefit levels.

### Disabled American Veterans

The existing DAV program has the following schedule of benefits for married couples or head of household taxpayers in tax year 2009:

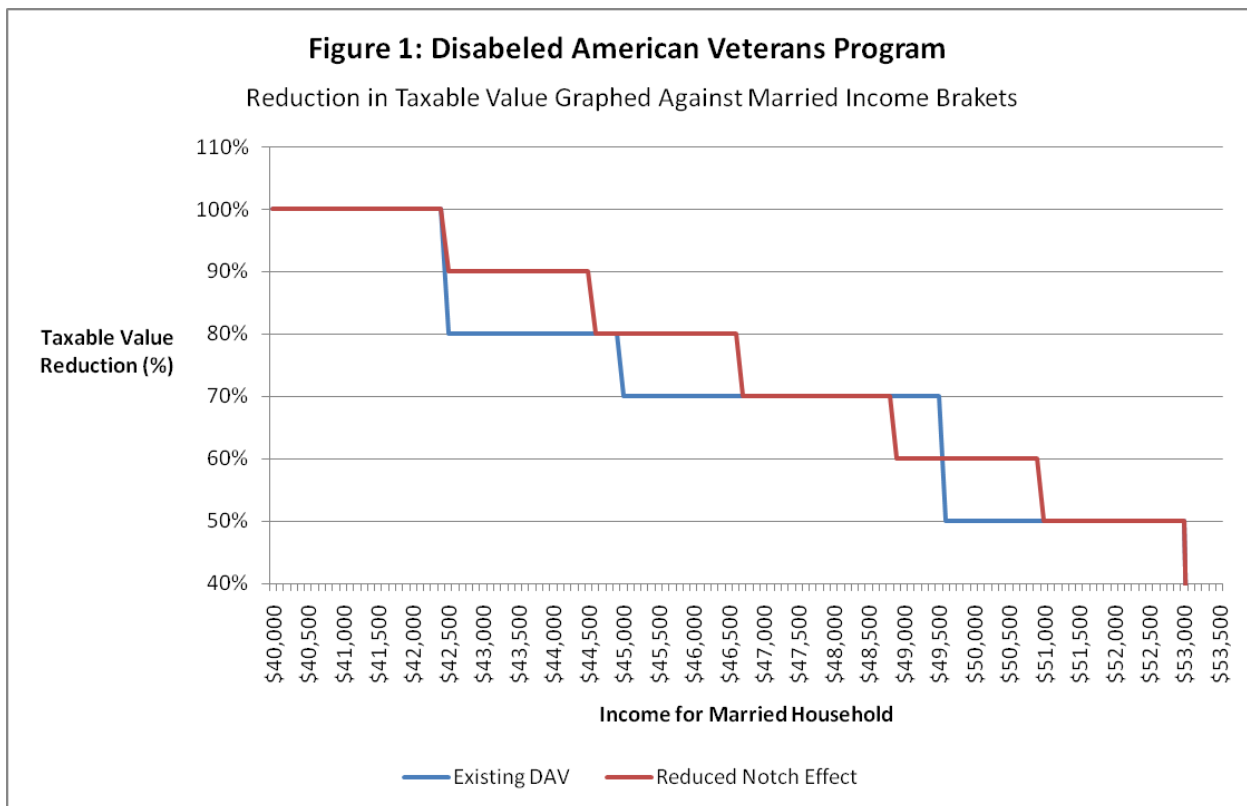
Table 1: Existing Schedule for DAV	
Income Range	Multiplier
\$0 - \$42,399	0%
\$42,400 – \$45,933	20%
\$45,934 - \$49,466	30%
\$49,467 - \$52,999	50%

To reduce the notch effect, the multiplier was increased from 0% to 50% in 10% increments for incomes between \$42,399 and \$52,999. This produces the following schedule:

**Table 2: Reduced Notch Effect Schedule for DAV**

Income Range	Multiplier
\$0 - \$42,399	0%
\$42,400 – \$44,520	10%
\$44,521 - \$46,641	20%
\$46,642 - \$48,762	30%
\$48,763 - \$50,883	40%
\$50,884 - \$52,999	50%

The property tax benefit is graphed in figure 1. The blue line represents the existing DAV program. The red line shows the program described in table 2 above. Where the blue line is above the red line, indicates the income of taxpayers that would have a reduced tax benefit if the new schedule were adopted. This occurs at income between \$48,763 and \$49,466. Their property tax benefit goes from a 70% exemption to a 60% exemption.



Adopting the new schedule would increase the property tax benefit received by DAV participants by 1.02% and the cost to the state by 1.01%. From the property tax assistance matrix provided at the December meeting, the DAV program provided \$1,520,846 in property tax relief and cost the state general fund \$266,683 in reduced property tax revenue. The new program would provide an additional \$15,439 in

property tax relief and cost the state an additional \$2,689 in reduced general fund revenue.

<b>Table 3: Property Tax Relief and Cost to the State</b>				
	Existing Program	Reduced Notch Effects	Difference	
Total Property Tax Benefit	\$1,520,846	\$1,536,285	\$15,439	
Total Cost to State	\$266,683	\$269,372	\$2,689	
Property Tax Shift	\$1,254,163	\$1,266,913	\$12,750	

The participation would not change because the eligibility requirements did not change. Refer to the property tax assistance matrix for number of participants, income levels and the value of homes that qualify for the DAV program.

### Property Tax Assistance Program

The existing Property Tax Assistance Program has the following schedule of benefits for married couples and head of household taxpayers for tax year 2009:

<b>Table 4: Existing Schedule for PTAP</b>		
Income Range	Multiplier	
\$0 - \$10,650	20%	
\$10,651 - \$18,638	50%	
\$18,639 - 26,625	70%	

To reduce the notch effect, the multiplier increases from 20% to 70% in 10% increments for incomes between \$10,650 and \$26,625. This produces the following schedule:

<b>Table 5: Reduced Notch Effect, No Loss in Benefits Schedule for PTAP (A)</b>		
Income Range	Multiplier	
\$0 - \$10,650	20%	
\$10,651 - \$13,845	30%	
\$13,846 - \$17,040	40%	
\$17,041 - \$20,235	50%	
\$20,236 - \$23,430	60%	
\$23,431 - \$26,625	70%	

This schedule would increase the property tax benefit by 6.27% (\$299,538) and the cost to the state by 6.05% (\$49,877). There are no income levels that lose property tax benefit.

Because the committee requested an analysis of a program that was revenue neutral, a second schedule for the PTAP program was modeled that reduced the notch effect. The revenue neutral schedule increases the multiplier from 20% to 90% in 10% increments for incomes between \$10,650 and \$26,625.

Table 6: Reduced Notch Effect, Revenue Neutral Schedule for PTAP (B)	
Income Range	Multiplier
\$0 - \$10,650	20%
\$10,651 - \$12,932	30%
\$12,933 - \$15,214	40%
\$15,215 - \$17,496	50%
\$17,497 - \$19,779	60%
\$19,780 - \$22,061	70%
\$22,062 - \$24,343	80%
\$24,344 - \$26,625	90%

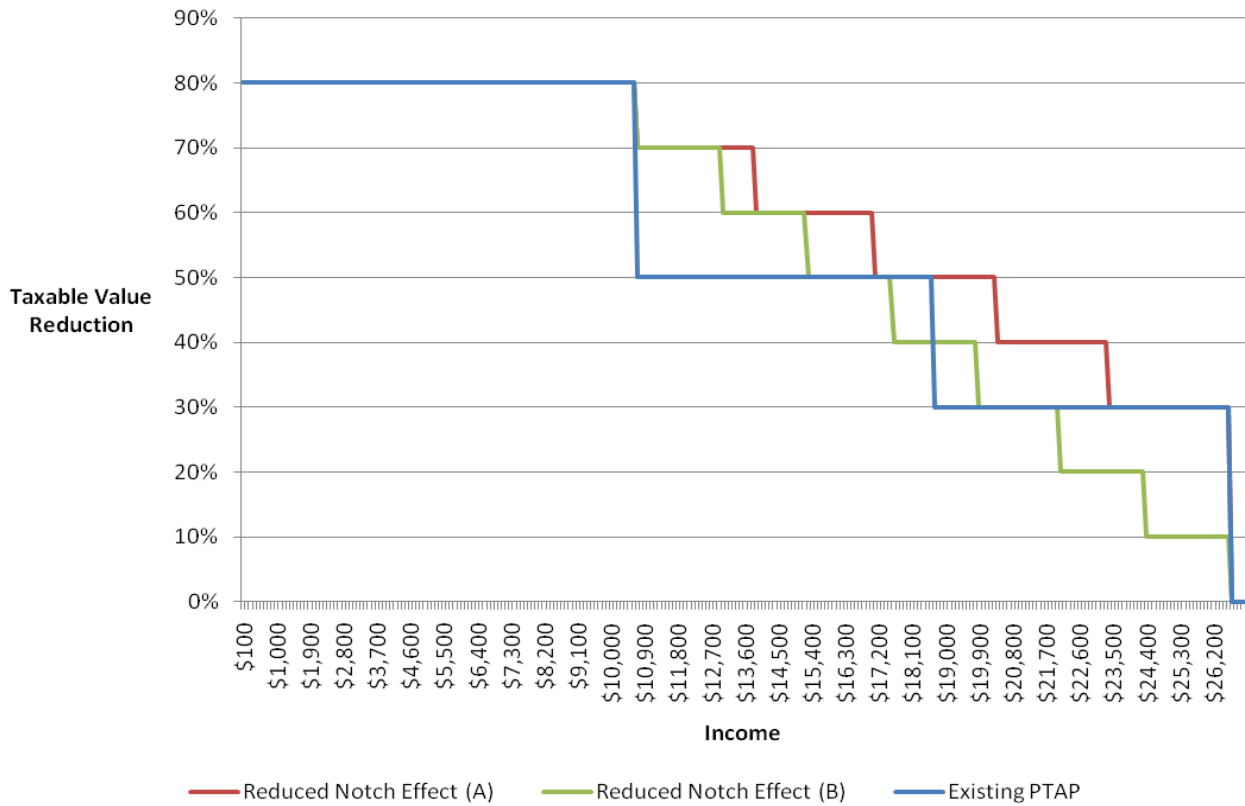
Using this schedule, taxpayers with incomes between \$17,497 and \$18,638, and taxpayers with income between \$22,062 and \$26,625 receive less property tax assistance. Using this schedule reduces the property tax benefit received by participants by 0.47% and reduces the cost to the state general fund by 0.60%. Adopting this schedule would increase state general fund revenue by \$4,910. Table 7 shows the two reduced notch effect schedules compared to the existing PTAP program. The difference column shows the difference between the new program and the existing program.

Table 7: Property Tax Relief and Cost to the State					
	Existing Program	Reduced Notch Effects (A)	Difference (A minus Existing)	Reduced Notch Effects (B)	Difference (B minus Existing)
Total Property Tax Benefit	\$4,777,236	\$5,076,774	\$299,538	\$4,754,768	-\$22,468
Total Cost to State	\$824,018	\$873,895	\$49,877	\$819,108	-\$4,910
Property Tax Shift	\$3,953,218	\$4,202,879	\$249,661	\$3,935,660	-\$17,558

Figure 2 shows how the two reduced notch effect schedules compare to the existing PTAP program. The blue line represents the existing PTAP program. The red line shows the reduced notch effect schedule without reducing benefits. Notice, the red line is never below the blue line. Where the green line is below the blue line, it shows that taxpayers with that income will receive a smaller reduction in their taxable value.

**Figure 2: Property Tax Assistance Program**

Reduction in Taxable Value Graphed Against Married Income Brackets



Like the DAV program, these new schedules do not change the eligibility. For the number of participants, income levels and home values refer to the property tax assistance matrix provided at the December meeting.

As requested by the Revenue and Transportation Interim Committee, this memo has provided some information on different options for reducing the notch effects of the existing DAV and PTAP programs.