Montana Department of Revenue

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To: Revenue and Transportation Interim Committee

From: Larson Silbaugh, Tax Policy Analyst

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Subject: Fiscal Impacts of LC0147

LC0147 reduces the tax rate for class 4 commercial and residential property that has depreciated in value since the end of the last reappraisal cycle. This fiscal impact is calculated as if the program were in place for tax year 2010 so that it is comparable to the other property tax bills discussed by the Revenue and Transportation Interim Committee.

If LC0147 were in place in tax year 2010, it is estimated that it would reduce state revenue by between $1,887,236 and $25,189,747 and shift between $8,113,993 and $108,300,950 in local property taxes to other taxpayers.

A range of costs to the state are presented because projecting the actual market value of an individual residential or commercial property is extremely difficult.

The sales file supplied for the independent assessment ratio study was used to estimate the market value of properties. This file was used as a data source to estimate the market value of property two ways. 1.) The trend in the sales price for individual properties is linear, and 2.) The market was flat after the property sold.

The first method assumes that if a property lost value between the assessment date and the sale date, then that trend continued until July 1, 2010. This makes more properties eligible for the reduced tax rate and a larger reduction in the tax base than using method 2. Method 2 just assumes that the sales price is the market value of the property in 2010.

LC0147 requires that the loss must be confirmed by a certified real estate appraiser. It is assumed that this costs $500, and so, a taxpayer will not have an appraisal if the tax benefit is less than $500. It is also assumed that a taxpayer will apply for the reduced rate as soon as they qualify.

Basically a linear trend assumes that what happened to the values between the July 1, 2008 and the sales date continued until July 1, 2010. For example, if a property sold for 5% less than the assessed value on July 1, 2009, 1 year after the assessment date, the market value of that property on July 1, 2010, 2 years after the assessment date, is 10% less than the assessed value.

Using a linear trend for this sample of properties, about 12% of property taxpayers would take advantage of the reduced rates in 2010. This would reduce the residential tax base by 13.12% and the commercial tax base by 20.48% for the sample of properties that had valid sales. For this analysis, it is assumed that the properties that sold are representative of the tax base as a whole and that the market continued on a linear trend after the sales date. If a linear trend is a better reflection of the real estate market, then it would have reduced the revenue to the state general fund by $25,189,747 and shifted $108,300,950 in local property taxes to other taxpayers in tax year 2010.

If the market is flat after the sale of properties and the sales price is the actual market value of properties, 0.25% of taxpayers would take advantage of the reduced tax rates. This would reduce the residential tax base by 0.30% and the commercial tax base by 3.41% for the sample of properties that had valid sales. Applying this reduction to the total commercial and residential property tax base would reduce revenue to the state by $1,887,236 and shift $8,113,993 to other property taxpayers. This lower estimate would be more accurate if the real estate market was flat after the sales date.

Fiscal Impacts of LC0147 TY 2010

	Tax Base	Percent Reduction	Reduction in Taxable Value	Reduction in 101 mill	Local Property Tax Shifts
	High Estimate - Assumes Linear Market				
Commercial	$440,270,943	20.48%	$90,169,789	$9,107,148.72	$39,155,329.33
Residential	$1,213,436,272	13.12%	$159,233,651	$16,082,598.77	$69,145,620.68
Total	**$1,653,707,215**		**$249,403,440**	**$25,189,747**	**$108,300,950**
	Low Estimate - Assuming Market is Flat				
Commercial	$440,270,943	3.41%	$14,992,282	$1,514,220.43	$6,510,248.32
Residential	$1,213,436,272	0.30%	$3,693,221	$373,015.32	$1,603,744.27
Total	**$1,653,707,215**		**$18,685,502**	**$1,887,236**	**$8,113,993**

This is a new program and may have some administrative cost increases and decreases involved for the Department of Revenue. Those administrative impacts will be calculated when/if this bill is introduced.

This bill may raise constitutional issues which committee members may wish to address to legislative legal staff.