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To: Senate and House Taxation Committees
From: Larson Silbaugh, Economist
Date: January 13, 2011
Subject: Information request for an example showing how mills are calculated

The Department of Revenue was requested to provide a numerical example of how mills are calculated at the January 12, 2011 joint meeting of the Senate and House tax committees. This memo fulfills that request.

1 mill = \$0.001, or 1/10th of one penny

So, 1 mill will generate \$1 of revenue for every \$1,000 in taxable value.

Local taxing jurisdictions set their budgets; they decide how much revenue they need to raise to provide services to their constituents but are constrained by the revenue caps in 15-10-420, MCA. When the budgets are set they use the taxable value to determine mills.

$$(1) (\text{Budget} \times 1,000) \div \text{Tax Base} = \text{Mills}$$

When the mills are determined, this is applied to the taxable value of properties to determine the tax bill for each property. So, for the taxpayer,

$$(2) \text{Taxes Paid} = (\text{Taxable Value} \times \text{Mills}) \div 1,000$$

A taxpayer will pay \$1 in property taxes for each \$1,000 in taxable value for each mill levied against their property.

The table below shows 3 examples of how mills are calculated and how the mills are used to calculate property taxes.

Numerical Examples of How Mills are Calculated

	<u>Example 1</u>	<u>Example 2</u>	<u>Example 3</u>
Budget	\$100,000	\$100,000	\$100,000
Tax Base	\$350,000	\$250,000	\$3,500,000
Mills	285.714	400.000	28.571
	Taxable Value	Taxes Paid	Taxable Value
Class A	\$50,000	\$14,286	\$500,000
Class B	\$100,000	\$28,571	\$0
Class C	\$200,000	\$57,143	\$2,000,000

For all 3 examples, the budget for this taxing jurisdiction is \$100,000. This may be for schools, a small city, a hospital, county roads or many other goods and services provided by local governments.

In Example 1 there are 3 class of property with a total taxable value (the tax base) of \$350,000. Using the equation (1) on the previous page, the budget equals \$100,000, the tax base equals \$350,000 so the mills equal 285.714.

$$\$100,000 \times 1,000 \div \$350,000 = 285.714$$

Using equation (2) to calculate the taxes for class A with a taxable value of \$50,000 and 285.714 mills, class A pays \$14,286.

$$(\$50,000 \times 285.714) \div 1,000 = \$14,286$$

Example 2 has the same budget, but class B is exempt so the tax base is 28% lower than Example 1. Using the equation above to calculate mills, there are 400 mills. This is 28% higher than the mills in example 1. These mills are applied to the taxable values of classes A, B, and C. Notice that the taxes for classes A and C are higher than in Example 1.

Example 3 has the same budget as Examples 1 and 2, but the taxable value for classes A, B and C are 10 times higher than in Example 1. The mills are 1/10th of in example 1 but the taxes paid by each class of property are exactly the same.