

OFFICE OF THE GOVERNOR
PROPERTY TAX TASK FORCE
STATE OF MONTANA



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Subcommittee Recommendation

Subcommittee Name: Tax Fairness Subcommittee

Recommendation: Reduce the tax rate for primary residences under a dollar threshold, and long-term rental improvements while increasing the rate for all other property classified as Class 4 residential. Additionally, create a tiered rate structure for all Class 4 commercial property so commercial properties under a predetermined value threshold are taxed at a lower rate, while property above the threshold would be taxed at a higher rate. Ideally, these rates would be established to raise minimal additional revenue on a statewide basis, but also to provide 15% to 20% reductions in taxes to primary residences, long-term rentals, and small commercial properties.

Rationale: By providing a lower tax rate for primary residences and long-term rentals, the overall property tax burden for these properties will be reduced and transferred to all other residential property and to existing non-Class 4 property. Additionally, by reducing the tax rate on the first portion of commercial property, many smaller commercial taxpayers will see a reduced taxable value while large commercial properties will see an increase in taxable value. This structure would potentially shift some of the tax burden from primary residence, long-term rentals, and smaller commercial properties, providing targeted property tax relief. Based on preliminary estimates, this proposal has the potential to directly reduce property taxes for over 215,000 primary residences and over 32,000 small commercial properties and could also indirectly reduce taxes and rents for over 130,000 renters in the state. This structure will also increase the taxable value for non-primary residences and non-long-term rentals and shift a larger share of the tax burden to these properties that may not participate in other forms of taxation, such as income taxes.

Barriers Addressed: By focusing property tax reductions on primary homes and long-term rentals, tax relief is provided to Montana residents. Increasing the tax on second homes, non-resident homes, and short-term rentals helps pay for the decreases in taxable value for other residential properties without that tax being shifted onto businesses or agricultural property. Current measurement by the DOR reveals that 21% of the state's residential taxable value tax bills are mailed to an out of state address. Out-of-state residents do not directly participate in the Montana income tax, which is the primary source of funding for an educated workforce, public safety (fire funding, corrections, etc), and health services (nursing homes, hospitals, mental health, etc.) while benefiting from these services. Since a statewide sales tax is consistently unpopular, a higher tax rate on properties not occupied by Montanans for at least 7 months out of the year represents one of the

few ways to tax out-of-state residents to offset taxes on Montana residents. Creating a two-tiered rate structure for commercial property lowers taxes for small businesses without shifting those taxes onto other classes of property.

Key Strategies: Lawmakers should familiarize themselves with the modeled outcomes of various tax rates and consider rationales for supporting those rates. The consensus rate structure currently is: Long-term rentals and primary homes up to four times the median home value receive a preferential rate of 1.1%. Any primary home value in excess of the four times median value and any other residential property pays a rate of 1.9%. Commercial property receives a preferential rate on values up six times the median commercial value of 1.5% and 2.1% for value in excess of the threshold.

The Department of Revenue anticipates additional costs for implementing this recommendation and is currently developing estimates for necessary FTE and system costs to accommodate applications for the homestead and long-term rental exemptions.

Dissenting Opinions (if applicable):

Owners of non-primary residences, non-long-term rentals, and large commercial properties may see an increase in property taxes because of this proposal. Although the recommendation is to minimize tax shifts on a statewide basis, depending on the allocation of the types of property in some taxing jurisdiction, mills could shift up (or down), which could potentially affect other tax classes, including agricultural and centrally assessed properties.

Supporting Graphics, Weblinks, or other documentation:

The linked spreadsheet and pdf output on the Property Tax Advisory Council website show the estimated impacts of this proposal on different types of property in different areas across the state.

<https://budget.mt.gov/docs/PropertyTaxTaskForce/PropertyTaxTaskForce20240604TaxFairnessSubcommitteeReport.pdf>

<https://budget.mt.gov/docs/PropertyTaxTaskForce/TaxFairnessSubcommittee20240521HomesteadComsteadModelHandout.pdf>

<https://budget.mt.gov/docs/PropertyTaxTaskForce/TaxFairnessSubcommittee20240521HomesteadComsteadModelPresentation.pdf>