

JULY 2023 NEWSLETTER



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REAPPRAISAL NOTICES CAUSE CONFUSION AND CONCERN

In mid-June the Montana Department of Revenue sent property owners their notice of the new values for their residential, commercial, and agricultural properties. Those letters were dated June 30, 2023. That date is important as property owners have **30 days from the date on the notice** to file appeals with the Department if they feel that the valuation they received is incorrect.

Residential and Commercial properties are valued based on comparable sales of like properties in the area. Property owners have the right to see what comparable properties the Department used to establish the value of one's property. In order to obtain this information, property owners must follow the appeal instructions on the appraisal notice. Owners must either file a request for informal review with the Department by **filling out the AB-26 form or may file an appeal with the County Tax Appeal Board**. Many times, by going through the informal review process, taxpayer questions about their value can be addressed. As a last resort taxpayers can pay their taxes under protest, but that is rarely successful if the appeal steps have not been taken.

Further adding to the confusion, the Department included on the notice of the new value an estimated tax for the coming year. State law requires them to do this and to use the previous year's mill levy to estimate the next year's taxes. Because law requires taxing jurisdictions to reduce their mill levies to offset value increases due to reappraisal, those estimated taxes are higher than the actual tax bill will be in most cases. Residential and, in most cases, commercial property owners will pay higher taxes this November due to new values, but the increase will be a fraction of the percentage of their value increase.



HOW INCREASED APPRAISAL VALUES TRANSLATE TO TAX INCREASES

When the Montana Department of Revenue issued taxpayer notices of new property values last month there was great concern as to how much property taxes would increase on those properties this fall. Part of this concern was the result of the Department including on the valuation notices an estimate of the coming property taxes on the property. State law requires them to make this estimate using the previous year's mill levy. This creates a higher estimated tax than will actually be assessed. Following will be an explanation why this is the case in most instances.

Tax collections will not increase the same percentage as values because State law limits how much property tax revenue property taxing jurisdictions can collect compared to the previous year.

Local governments, cities, counties, and other taxing jurisdictions growth in property tax collections from their existing tax base is limited to $\frac{1}{2}$ the rate of inflation averaged over the previous three years. That growth will be in the 3% range this coming year. Because of the high increase in the values of existing homes and commercial properties, local governments will have to decrease their mill levies. Lowering mills will mitigate tax increase that might result from increased values.

Schools budget growth on all property, both new and old, is limited to the inflation growth allowed by the legislature and growth in student population. The Legislature allowed for 3% growth and student population in most schools are stable or dropping. So, school property tax collections will increase by at most 3% unless voters approved additional operating levies or approved debt for new construction. Like local governments, school mill levies will decrease to offset new values.

State property tax collections will increase at a much higher rate than local property tax collections. The State collects 95 mills to help fund its share of school budgets. At this point, the State has chosen not to reduce its mill levies to offset higher taxable values from increases in residential and commercial properties. Because of this decision, the State is expected to collect over 80 million dollars more in property taxes than it did last year. **This is a 26% increase in tax collections.** Residential property owners will pay 40 million dollars of this increase.

HOW MUCH MIGHT PROPERTY TAXES INCREASE?

Figuring out how much an individual's property tax might increase is difficult to calculate at this time. Individual property taxes are determined by a number of factors. They are:

1. How much did your property increase in value compared to all other property in your levy district?
2. Did you make improvements that were just placed on the tax rolls?
3. Were new mill levies voted in?
4. Were all mill levies applied to your property adjusted down due to new appraisal values?
5. What non-voted levies were increased?

HOW MUCH MIGHT MY PROPERTY TAXES INCREASE?

Property taxes paid on any individual property are proportional to their share of the taxable value of the property in the levy district they are in. As their proportion of that total value of the district goes up, their share of the total taxes go up. A **levy district** is an area where all the properties pay the same mill levies to the same taxing jurisdictions. A levy district mills consist of mills for the State, the County, and elementary school district, a high school district, a city if the property is within its boundaries, and a variety of miscellaneous jurisdictions like a conservation district, library district,

cemetery district, and many other property tax jurisdictions the property may be located in. Since property tax collections in most of these jurisdictions are capped by law to an inflation adjustment, total collections are capped. Mill levies must be reduced so no more revenue is collected than the amount collected the previous year plus the amount allowed by inflation. This year the inflation adjustment is about 3%. If the value of a taxing jurisdiction went up by 20%, mill levies must be reduced by roughly 19%. Therefore, properties that increased less than 19% should see decreases in taxes and properties that increased greater than 19% would see increases in taxes.

Total property tax collections in FY 2023 were \$2,008,712,000. According to the Department of Revenue, residential property paid 52% of that total. In November of 2022 the Department produced a report to the Revenue Interim Committee that estimated residential property values would increase statewide by 43%. They projected that after local taxing jurisdictions adjusted their mill levies to reflect new values that residential property owners would pay 160 million dollars more in property taxes in FY 2025. The result would be an increase statewide of about 15% in taxes paid by residential property owners. That would be the likely increase if your property values went up 43%. If your value increase was higher, your taxes could also increase greater than 15%. The actual change in an individual's property tax depends on the mix of properties in your levy district. The more residential property in a levy district and its relative change in value will affect the final mill levy in that district. If all the property in your levy district increased the same percentage mill levies would go down proportionally and your only tax increase would be the inflationary increases plus the increase to the State mills.

The increase in residential property tax collections could be even less if the State would reduce its mill levies like local taxing jurisdiction are required to do. That could save residential property owners another 40 million dollars a year.

Property taxes could also go higher if voters approved levies to increase operational spending by local jurisdictions or approved bonds for new construction.

Individual property taxes could increase if improvements were made to existing property.

Cities and counties can increase property taxes to pay for increased costs to their employee health plans.

If significant taxpaying property is no longer located in the levy district, lost revenue can be passed on to remaining taxpayers.

DOR TO HOLD TOWNHALL MEETINGS ON REAPPRAISAL

Due to taxpayers concerns and confusion over the recently distributed reappraisal notices for residential, commercial, and agricultural properties the Department of Revenue has scheduled a series of townhall meetings to help property owners and taxpayers to understand the process of reappraisal and the reason for the information distributed in the reappraisal notices. The schedule for the meetings as well as the time and place can be found at the following link.

https://montana.servicenowservices.com/citizen/kb?id=kb_article_view&sysparm_article=KB0018367

INCOME TAX REBATES ON THE WAY

The 2023 Legislature passed HB 192 requiring the State to return to Montana income taxpayers a portion of the money that was collected above the amount expected by the State. Those rebates go to Montana income taxpayers and are based on State income taxes paid in 2021. The rebate is limited to the lesser of the actual amount paid or \$1250. The payments will be going out in July either by direct deposit or check. For more information and to get answers to commonly asked questions check the following link.

<https://mtrevenue.gov/taxes/montana-tax-rebates/individual-income-tax-rebate-house-bill-192/#Rebates>

PROPERTY TAX REBATES TO COME THIS FALL

The 2023 Legislature passed HB 222. HB 222 provides rebates to Montana homeowners who paid property taxes in 2022 and 2023. The rebate amount is the lesser of the property taxes paid on the primary residence for the year or \$650. Property owners will have to apply for the rebate in order to verify that they are a Montana resident and have lived in your home for 7 months out of the year the rebate is applied for. The application process will begin Aug. 15, 2023, and end Oct 1, 2023, for the 2022 tax year. A similar process will occur in fall of 2024 for the 2023 rebate. More information and answers to questions can be found at the following address.

<https://mtrevenue.gov/taxes/montana-tax-rebates/property-tax-rebate-house-bill-222/>

UPCOMING MEETINGS

- ◆ July 11 [Economic Affairs](#)
- ◆ July 12 [Local Government](#)
- ◆ July 13 [Children, Families, Health, and Human Services](#)
- ◆ July 13 [Revenue](#)
- ◆ July 13 [Transportation](#)
- ◆ July 19 [State-Tribal Relations](#)
- ◆ July 21 [State Administration and Veterans' Affairs](#)
- ◆ July 24 [Law and Justice](#)
- ◆ July 24 [Water Policy](#)
- ◆ July 26 [Environmental Quality Council](#)
- ◆ August 1 [Energy and Telecommunications](#)
- ◆ September 11-12 [Education](#)